

Public Utilities

FORTNIGHTLY

Volume XLIX No. 9



April 24, 1952

EMPLOYEE INFORMATION ON THE AMERICAN ECONOMIC SYSTEM

By Edwin Vennard

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Your Service—Do Your Customers Like It?

By E. A. Combatalade and Felix Rehman

< >

A Contractual Alternative to Socialized Transit

By Graeme Reid

< >

Business Dispersal via the "T" Bomb

By James H. Collins



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Public Utilities

FORTNIGHTLY

HENRY C. SPURR
 Editorial Consultant

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APRIL 24, 1952

NUMBER 9



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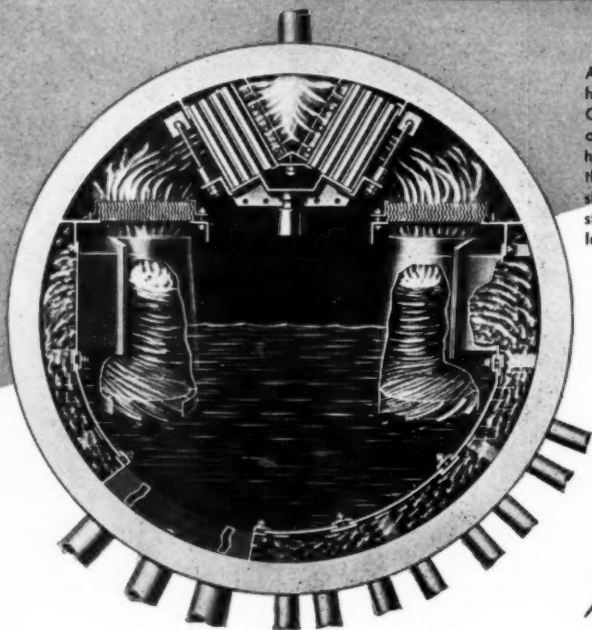
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Appalachian Electric Power Co.	2400
Commonwealth Edison Co.	2125
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Commonwealth Edison Co.	2125
Detroit Edison Co.	2050
Jersey Central Power & Light Co.	2225
Georgia Power Co.	2100
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Public Service Co. of No. Illinois	2125
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Ohio Edison Co.	2300
Pacific Gas & Electric	2050
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Pages with the Editors

Now that Easter is out of the way, Congress can get back to its business of trying to get a whole library full of controversial legislation out of the way before the political conventions in July. But it would be an optimist indeed who expects that even 10 per cent of the bills introduced will be enacted.

YEARS ago, statistically minded newspapermen covering Congress noted that for some reason or other a 10 per cent rule of thumb seemed to apply to the ratio between bills introduced and those finally signed by the President. The others fell by the wayside for various reasons—failure to get committee attention, failure to emerge from committee, failure or substitution on the floor of either house of Congress, failure in conference, or failure of the President to sign, resulting in a veto.

THE biggest hurdle of all, statistically, is the large number of bills introduced without serious expectation even on the part of the sponsor that they would get final action. But since the end of World War II, the 10 per cent rule of thumb seems to be affected—like everything else these days—by creeping inflation. The number of bills actually being signed by President Truman, compared with the bills given House or Senate numbers, upon introduction, so far in the present session would be closer to 5 per cent.

It is difficult to assign any single reason for this peculiar kind of inflation in our Federal legislative branch. Probably the presidential election year has more to do with it than anything else. This is not only the year when Congressmen hate to vote for anything controversial and would rather talk about some issues than settle them, one way or the other. It is also a year when Congress introduces a large number of bills for "home consumption." A bill to build a new steel girder bridge over Snake Bite Gulch, or to



EDWIN VENNARD

dredge out Turkey Creek to a channel of 30 feet for ocean-going vessels to navigate, are pleasant things to talk about during the campaign. But the practical Congressman knows that they must of necessity remain in the committee pigeon-hole of unfulfilled dreams.

THE odd fact about the present session is that the President is a member of the party which is supposed to be in control of both branches. But unless Congress takes an unforeseen spurt before July, the record will show that President Truman does not even get on as well with the Democratic 82nd Congress as with the so-called "do nothing" 80th Congress, which the President ridiculed so effectively during the 1948 campaign because of its Republican leadership.

PERHAPS the real reason for the present lack of co-operation is the fact that controversial legislation today cuts across party lines. The current "tidelands" bill (to restore state ownership to the offshore oil and gas deposits) is a good case in point. It commands a majority support in both houses but it is opposed by the President.

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YET there is one class of bills which Congress always seems to get around to passing, regardless of whether it gets along with the Chief Executive or otherwise. Edmund Burke probably had this in mind when he made his celebrated observation about the inevitability of death and taxes.

BUT there are economic penalties which occur when politicians overdo in the way of taxes, even for local governments. And even public utilities can feel the indirect effects. One of the articles in this issue (beginning on page 555) deals with the interesting results of voluntary dispersal of industry to avoid the burden of increasing municipal taxation in heavily populated areas. The author of this article, JAMES H. COLLINS, well-known California editor, calls the reason for this dispersal the "T" bomb—the "T" being for "taxes."

* * * *

THE opening article in this issue is another in our series of articles on modern methods taken by public utility companies to educate employees. The author is a well-known figure in the public utility industry, EDWIN VENNARD, vice president in charge of rates, new business, advertising, and public and employee relations of the Middle West Service Company. Born in New Orleans and an engineering graduate of Tulane University ('24), MR. VENNARD started his career in the testing department of General Electric Company in Schenec-



E. A. COMBATALADE

APR. 24, 1952




FELIX REHMAN

tady. He entered the utility business in 1926 as an engineer for the Gulf States Utilities Company, later becoming general commercial manager of the Southwestern Gas & Electric Company at Shreveport, Louisiana. He joined his present organization in 1933.

* * * *

THE two authors of our article on a simple way to test customer opinion (beginning on page 542) are E. A. COMBATALADE, director of public relations, and FELIX J. REHMAN, administrative analyst, of the Sacramento Municipal Utility District. MR. COMBATALADE is a San Franciscan and a graduate of the University of California and Columbia University (MA, Phi Delta Kappa). He is past president of the California State Junior Chamber of Commerce. MR. REHMAN was born in New York but spent his childhood in Europe. He also is a graduate of Columbia University (MS, '32) and attended the University of Illinois. He did analytical work with the Irving Trust Company in New York and also served with the OPA in World War II. He joined his present organization in 1948.

THE next number of this magazine will be out May 8th.

 *The Editors*

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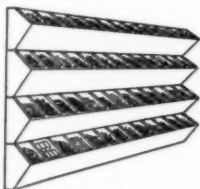
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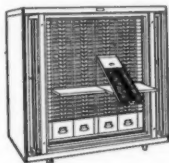
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Coming IN THE NEXT ISSUE



HOW CAN WE STOP THE "LINE LOSSES" OF CUSTOMER RELATIONS?

During this season of sensitivity to political campaigns, we can understand the importance of personal contact to the success of political ambition. All the successful practitioners agree that there is no substitution for old-fashioned bell ringing, hand shaking, meeting people, and making as many friends as possible. Is the success of utility public relations really very much different? Here is an article by Henry Obermeyer, vice president of Bozell & Jacobs, Inc., based on information provided by 105 operating utilities on how contacts are maintained with their customers.

A SOLUTION TO OUR WATER SHORTAGE PROBLEM

Not only water utilities but electric utilities, and indirectly other utilities, have a vital stake in the solution of the water supply problem in shortage areas. In California, for example, the claim of the Federal government to paramount rights in the Santa Margarita river casts a small legal shadow over every hydroelectric dam in the country. For this and other reasons, Alfred M. Cooper's article on the possibilities of desalting ocean water as an alternative to direct irrigation programs (mostly of the Reclamation Bureau) should be read with interest and profit by public utility people of all kinds.

ONE WAY TO TALK TO UTILITY EMPLOYEES

Here is another in the series of practical steps taken by public utilities for improving the understanding of employees of important policy matters affecting the welfare and security of the business. James H. Collins, California business writer, takes up an interesting case study of a "house publication" and its impact on employee relations of a large California utility. What it contains and how it is put together, and the general editorial slant are reviewed by an author who is an old hand, himself, at the smart editorial approach.

DIARY OF THE FPC GAS PRODUCTION DISPUTE

Now before the court of appeals for the District of Columbia, for review, is the controversial decision of the Federal Power Commission voluntarily relinquishing jurisdiction over the regulation of the nation's largest independent producer of natural gas. The so-called Phillips Case, which started before an FPC examiner at field hearings in Oklahoma, has become a *cause célèbre* in the annals of both the gas industry and regulatory jurisprudence. Ernest W. Fair, Oklahoma business writer, gives a chronological account of this case for purposes of the record, in view of its outstanding importance.



Also . . . *Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.*

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How big is a clock?

A CLOCK can be moderate in size—such as a living room clock is.

Or, it may be as big as Big Ben in London.

Clocks are made up in an assortment of sizes. And so are your customers' bills.

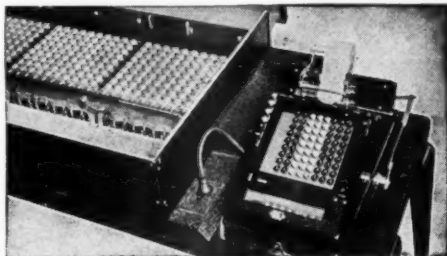
A big consideration

When planning rate and promotional programs, therefore, it is often important to *know the number of your customers' bills in each kilowatt usage category.*

To help provide utilities with such data at low cost, the Recording and Statistical Corporation has developed the Bill Frequency Analyzer. Operated in our own offices, this electric-mechanical equipment analyzes as many as 200,000 bills each day. The cost for this service is reasonable, and the facts disclosed are often invaluable.

May we give you further information about this economical method of compiling usage data?

Write today for "The One Step Method of Bill Analysis." It may save you time and money in the months to come.



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Remarkable Remarks

"There never was in the world two opinions alike."

—MONTAIGNE

G. KEITH FUNSTON
*President, New York Stock
Exchange.*

"Capitalism's insatiable appetite for new venture money can be satisfied in just one way—from the mass savings of the people."

EDITORIAL STATEMENT
New York Journal American.

"Almost always a threat to freedom comes first by stealth. It insinuates itself by masquerading as an emergency, or a benefit, or a matter of no great importance. It fattens and grows on trivialities."

A. L. LYNN
*Chairman, natural resources committee,
Chamber of Commerce of
the United States.*

"Government power monopoly is a virtual hallmark of the socialistic countries. If it is so beneficial and economically practical, why are so many of those socialist nations dependent on American tax dollars to save them from bankruptcy?"

JOHN W. BRICKER
U. S. Senator from Ohio.

"Socialism and printing-press money have never yet succeeded in reproducing the capital required for an expanding economy. The experience of other nations in varying degrees of socialistic experiment proves almost conclusively that they cannot."

ERNEST T. WEIR
*Chairman, National Steel
Corporation.*

"Under the guise of one emergency or another, government has sought continuously to exert its prior claim on a larger and larger share of the income and credit of the country. Whatever the reasons for this effort of government the effect is the socialization of an expanding proportion of the national income."

A. A. STAMBAUGH
*Chairman of the board, Standard
Oil Company (Ohio).*

"Your management is deeply concerned about the continued expansion and cost of government. The severe and ever-increasing tax burden imposed on the people and on production of our country has dulled the incentives which have been so important in promoting the past growth and progress of the nation."

PRENTISS M. BROWN
*Chairman of the board, Detroit
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"It is interesting to note that the price of our product, electricity, is far from a controlling cost of production, since less than three-quarters of one per cent of the cost of all manufacturing goes for electricity. The real economic importance of electric power is based almost entirely on having an ample supply at the time it is needed."



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REMARKABLE REMARKS—(Continued)

HARRY F. BYRD
U. S. Senator from Virginia.

"Big government is the most inflated thing in the United States today."

HERBERT HOOVER
Former President of the
United States.

"Whatever the road to enduring peace may be, it must include one fundamental concept. That is the full maintenance of the independence and self-government of nations."

G. SIDNEY HOUSTON
Manager of investment research,
First Bank Stock Corporation.

"When wealth owners lose interest in making more money, as they have in some other nations, the vigorous development of American free enterprise and further increases in our standard of living will be severely jeopardized."

EDITORIAL STATEMENT
The Wall Street Journal.

"It is characteristic of government planning that once a plan is started it acquires a political momentum that makes it difficult if not impossible for the planners to change it or stop it even though everybody else realizes that the circumstances have changed."

WALTER MAYNARD
President, Association of
Stock Exchanges.

"The spreading ownership of stocks by individuals, the growing interest in stocks by pension funds, rising sales of mutual funds, and the new purchases of stock by trustees and insurance companies are ingredients of a developing 'people's Capitalism,' which would have far-reaching social effects."

DWIGHT D. EISENHOWER
General, U. S. Army.

"... I emphatically agree with the generalization that we should have as little of government in business and private affairs as is feasible in our modern, complex life. But with practically all Americans, I believe that government cannot be a totally passive bystander in the country's economic life."

W. ALTON JONES
President, Cities Service Company.

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Chairman, The Peoples Gas Light
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longer battery life

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more consistent radio operation

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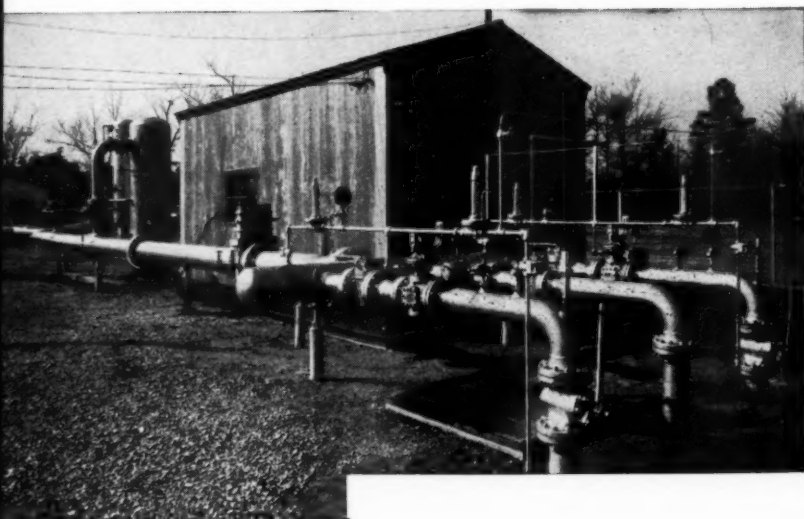


MARINE



INDUSTY

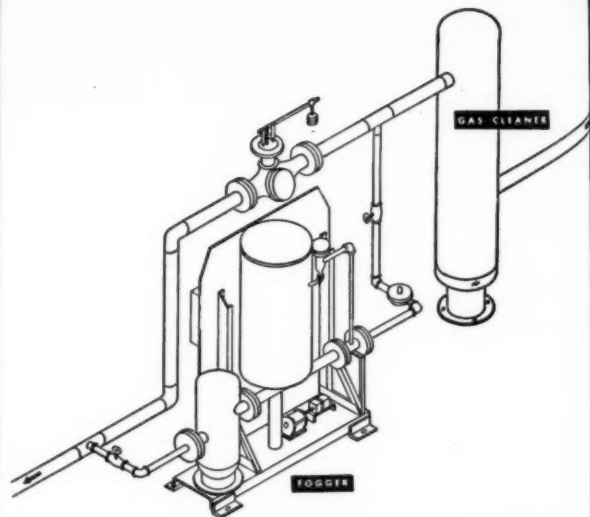
THE RIGHT COMBINATION



▲ A typical City Gate or Town Border Station. Here, gas from the transmission main gets a scrubbing in the Blaw-Knox Gas Cleaner which removes all traces of dust, scale, and rust. No new dust gets into your distribution system.

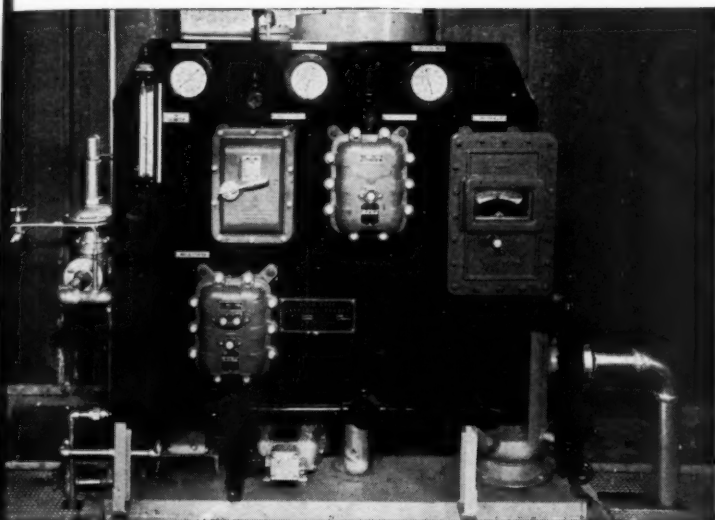
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The diagram shows the Right Combination to insure delivery of clean, conditioned gas. Both Cleaners and Foggers are standardized units — quickly installed and requiring the minimum of maintenance or supervision.



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GAS CLEANERS PLUS OIL FOGGERS



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story. Other IBM electronic developments have improved *all* phases of customer accounting . . . including bill calculation and audit functions.

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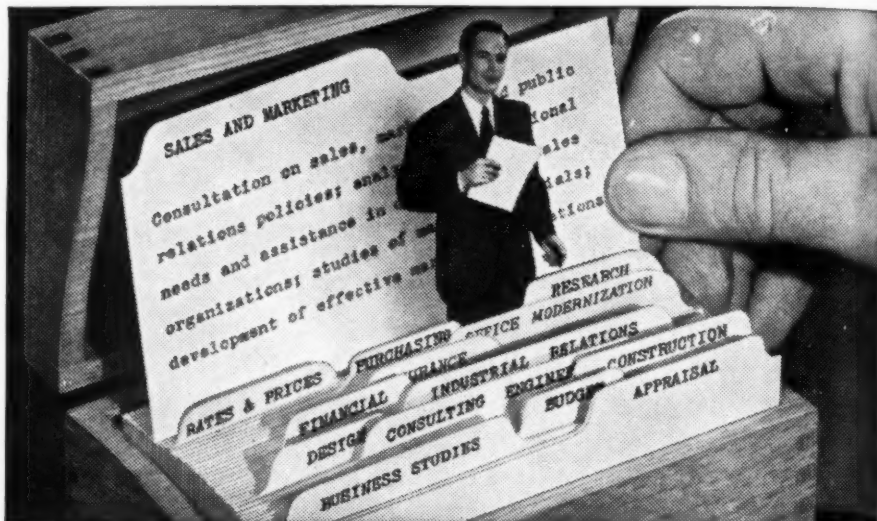
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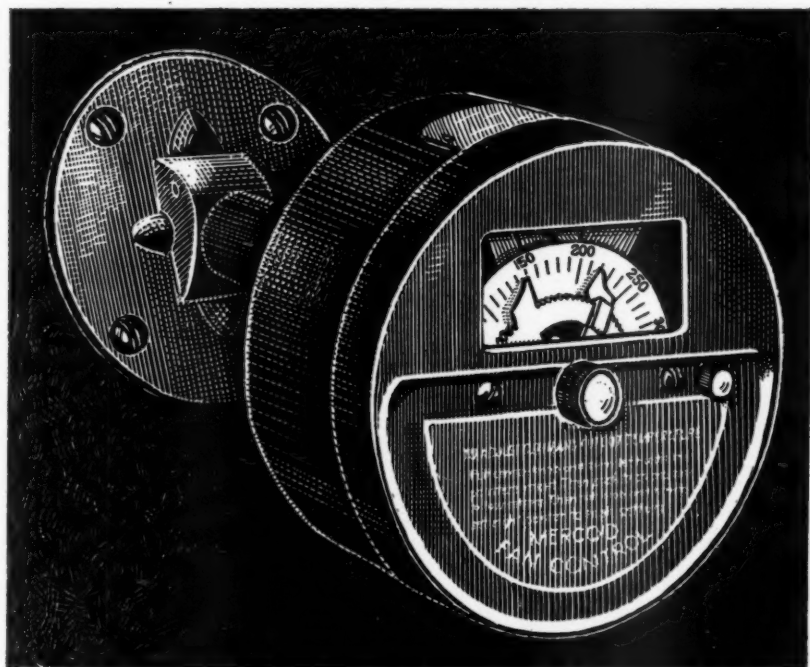
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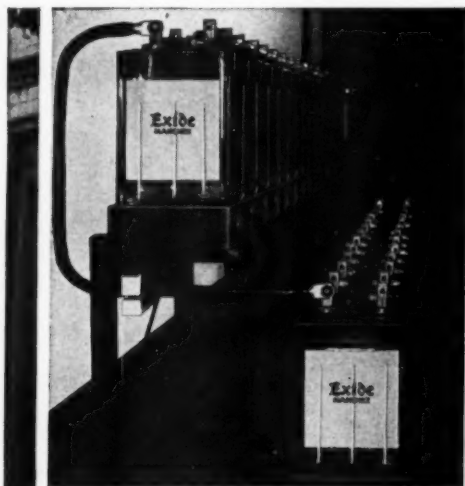
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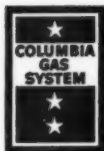
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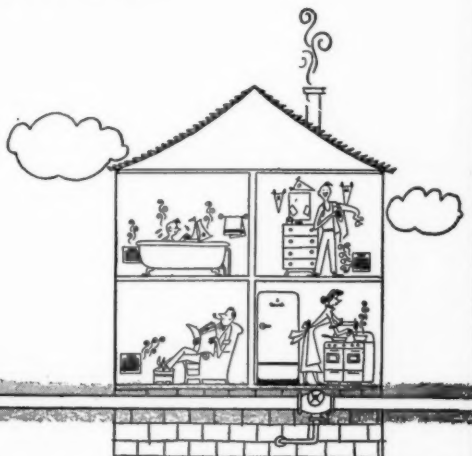


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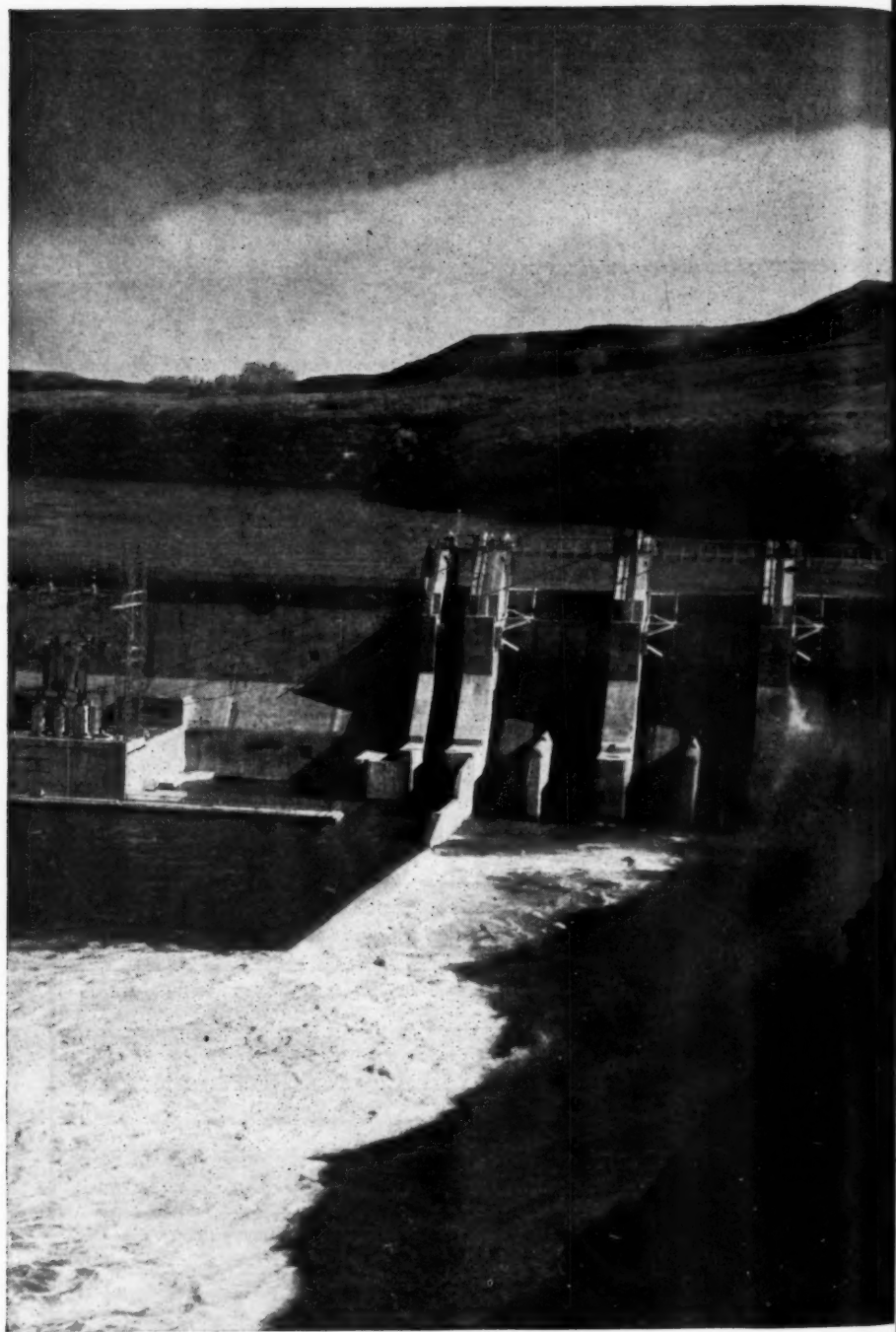
24	T ^a	† Indiana Gas Association begins annual meeting, French Lick, Ind., 1952. † Pacific Coast Electrical Asso. begins business conference, Pasadena, Cal., 1952. 
25	F	† Liquefied Petroleum Gas Association begins northwestern states' meeting, Seattle, Wash., 1952.
26	S ^a	† American Water Works Association, Pacific Northwest Section, ends annual meeting, Spokane, Wash., 1952.
27	S	† Advertising Federation of America, Fourth District, ends 3-day meeting, Miami Beach, Fla., 1952.
28	M	† Pennsylvania Independent Telephone Asso. begins convention, Bedford, Pa., 1952. † Southern Gas Association begins annual convention, Galveston, Tex., 1952.
29	T ^a	† American Public Power Association begins spring convention, Seattle, Wash., 1952.
30	W	† American Institute of Electrical Engineers, Northeastern District, begins meeting, Binghamton, N. Y., 1952.



MAY



1	T ^a	† Pennsylvania Electric Association, Communications Committee, begins meeting, Allentown, Pa., 1952. 
2	F	† Illuminating Engineering Society ends 3-day Canadian national conference, Niagara Falls, Ontario, Canada, 1952.
3	S ^a	† American Water Works Association, Kansas Section, begins one-day annual meeting, Kansas City, Kan., 1952.
4	S	† American Water Works Association begins annual conference, Kansas City, Mo., 1952.
5	M	† American Gas Association begins commercial gas school, Chicago, Ill., 1952. † Pacific Coast Gas Asso. begins sales and advertising round table, Los Angeles, 1952.
6	T ^a	† National Electrical Manufacturers Association begins international lighting exposition and conference, Cleveland, Ohio, 1952.
7	W	† Northwest Electric Light and Power Association, Engineering-Operation Section, begins meeting, Great Falls, Mont., 1952.



Private Hydro on the Snake River
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Public Utilities

FORTNIGHTLY

Vol. XLIX, No. 9



APRIL 24, 1952

Employee Information on the American Economic System

Sampling opinion is the only real way to appreciate how much misinformation exists. Here is an account of steps taken to gauge lack of understanding and correct it effectively with a systematic and continuous educational program.

By EDWIN VENNARD*

VICE PRESIDENT, MIDDLE WEST SERVICE COMPANY

ONLY a few years ago the electric light and power companies stood almost alone in trying to stop government encroachment into the field of business. This encroachment was then recognized by only a few as a step towards Socialism. Today community leaders everywhere recognize the dangers to American freedom by reason of these forces act-

ing from within the country. Furthermore, these leaders are anxious to do something about it.

About five years ago our public utility clients asked us to prepare a comprehensive program of information designed to present those economic facts, the ignorance of which results in a tendency of people to rely upon the government instead of themselves for their personal welfare. It has taken us almost five years to build the pro-

*For additional personal note, see "Pages with the Editors."

PUBLIC UTILITIES FORTNIGHTLY

gram. It was pretested over many months and revised many times before being put in final form. Since then it has been used by a large number of companies, both in the power business and out, and among other groups. Before - and - after measurements of knowledge and attitudes indicate that a 6-hour program such as this can do a great deal to arrest the present trend toward Socialism.

Similar programs have been constructed by other groups and individual companies. Before - and - after measurements indicate that they also accomplish desirable results.

RELATIVELY few people realize the extent and thoroughness of the research on this problem that has been conducted over the past ten or fifteen years. Community leaders want to do something about the dangerous trend, but don't know what to do nor how to do it. Consequently, PUBLIC UTILITIES FORTNIGHTLY has asked us to describe how our program was constructed, how it is being used, and to note some of the results.

Those of us in the power business need not assume any particular credit for having developed some effective methods for arresting the trend towards too much reliance on government. We had to do it in order to prevent our business from being socialized. However, because of our longer experience in dealing with the problem, we have some responsibility in passing on to others what we have learned in this field.

It will be my purpose to discuss the subject under the following headings:

I. Analysis of the Problem.

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II. Construction of a Program.

III. Results.

IV. How the Program Is Being Used.

V. Conclusions.

I. Analysis of the Problem

THE problem with which we are dealing is not a power problem. Government operation of the power business is but a part of a bigger problem. Basically speaking, we are dealing with the issue as to whether the American people want to continue as free individuals, or whether they want to live under a system where government tells them what they can and cannot do. Do the American people want a system where the people run the government, or a system where government runs the people? Describing this issue under different names confuses the question.

The problem has to do with people's attitudes, emotions, beliefs, desires, and knowledge of political and economic facts and principles.

During the middle thirties an important tool was developed for measuring the public's knowledge and belief and attitude. One of the leading agencies in this field of measuring public knowledge and attitudes is Opinion Research Corporation of Princeton, New Jersey. Supported by a large number of industries and associations, Opinion Research makes a continuing survey of public attitudes on these important questions. Literally hundreds of such measurements have led to the following important fact:

There is a relationship, or an association, or a correlation, between

EMPLOYEE INFORMATION ON AMERICAN ECONOMIC SYSTEM

knowledge of economic facts and attitude toward the central collectivist question of reliance upon the government for personal economic security.

It probably is not possible, nor is it even necessary, to establish that a relationship of cause and effect exists between these two things. All that can be said with certainty is that there is a relationship; that knowledge of economic facts tends to be associated with belief in and support of the principles of private ownership of property and the moral values of individualism. Ignorance of economic facts tends to be associated with willingness to believe in and support the doctrine of reliance upon the government for the solution of personal economic problems.

WHAT facts? Obviously there are many and varied types of facts that management and community leaders could pass on to others. The question is, "Where shall we start?" What are the basic "areas of ignorance" that have a relationship with collectivist ideology? After much research and trial and error, it is believed that there is widespread public misunderstanding concerning the following:

A. The size and rate of profit.

People think the average profit is

25 per cent. They think 10 per cent is fair. They don't know the actual is 4 to 6 per cent. They are angry with management and owners for taking "too much." They want government to take over to bring about a fairer division.

B. The division of income between employees and owners within a business.

Of all income available for profits and wages, workers have the opinion that owners get 75 per cent and workers only 25 per cent. They don't know that workers now get 80 per cent of this divisible income. They want a change in the system to bring about a "more equitable" division.

This area of ignorance and the one concerning profits are the underlying contributing factors to most featherbedding, sit-downs, strikes, and desire for a change in the system.

C. The effect of machines on employment.

They don't know that machines have contributed most to their standard of living. They don't know that machines make jobs.

D. The importance of incentives in a free society.

E. The distribution of income within the United States.

F. The meaning and benefits of productivity, and the processes by which it is achieved.



Q"ONLY a few years ago the electric light and power companies stood almost alone in trying to stop government encroachment into the field of business. This encroachment was then recognized by only a few as a step towards Socialism. Today community leaders everywhere recognize the dangers to American freedom by reason of these forces acting from within the country. Furthermore, these leaders are anxious to do something about it."

PUBLIC UTILITIES FORTNIGHTLY

MANAGEMENT often debates as to whether employee information programs should begin with facts about the company or the particular industry, or whether it should begin with the basic facts about the American system.

From our experience on this question, it was our conclusion that it was advisable and almost necessary to begin with the basic facts about the American system. Before these facts are understood and believed, company facts or industry facts are often not accepted as truthful. Also company facts are better understood if the basic economic facts are first presented.

For our electric company clients, it was our recommendation that they should begin with these basic facts and not with the power story. That would come later.

Consequently this first program is on the American economic system, and has nothing to do with the power business or the power problem as such. (However, the program reduces the belief in government operation of any business, including power.)

There is another reason why it appeared advisable to begin with the basic story. Electric companies cannot win their battle alone. They need the help of all other community leaders and all other industries. These community leaders by and large are now anxious to help because they see that it is an over-all problem. Consequently a program on the American economic system could be used not only for electric company employees but could be made available for use in other industries, in schools, and in fact in any place where people want to discuss the American system.

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This is not to say that such a program should not be followed with further information about the particular industry and its problem and about the company. This should follow.

SOURCE *material*. It has been our experience that the basic areas of ignorance causing the trouble have been there for so long and they are so deep-rooted that it is difficult to have facts accepted. In many cases facts from the company or the industry or trade associations or business associations are simply not believed. We found it necessary to base all principal facts on reports of the Federal government. To confirm even these, it is necessary for the group leader to have available government books from which the facts were obtained.

Package or tailor-made. The next important question was whether we should prepare a package program that could be used by all companies and all groups, or whether programs should be tailor-made for each company or situation.

It was our conclusion that the first program—the basic one—should deal with the problem that was common to all companies and all groups. This beginning program at least could be built into a package that could be used by anyone. When painstakingly constructed with ample pretesting over a period of almost five years, the cost of such a program becomes a fairly sizable item. Much economy, both in time and expense, can be realized through the preparation of one basic program for all. Other programs coming later could deal with the particular industry, or company, or situation, and could be tailor-made.



Research of Socialism

“OVER the past ten to fifteen years a great deal has been done by many groups and organizations to find the cause of the trend towards Socialism. The evidence indicates that much of this trend can be traced to a lack of knowledge of economic facts and principles on the part of many people. The cure and remedy appear to be in the presentation of facts.”

However, the packaging does not mean a record or sound track, as usually found on a canned program. The actual workings of the program will be described later.

How to communicate. If the basic cause of the trouble is ignorance of economic facts and principles, how does one communicate this information to another? There are many effective means, but all of the experts on communication are of the opinion that the most effective technique is the so-called “conference method,” where fifteen to thirty are grouped together for discussion under a trained conference leader. The armed forces found this the most effective means for communicating quickly when it was so necessary in World War II. Indeed, schools have used the method for centuries.

Here the group leader presents a fact on the screen—a fact from an uncontroversial source. He then provokes discussion of that fact.

Before- and -after measurements have indicated that a high degree of communication takes place in as little as six hours of such discussion. The measurements also indicate that an increased knowledge of facts carries with it a decrease in the belief in those things we call Socialism, but which they would call something else.

Who should communicate? Whose responsibility is it to communicate this type of information to others? It would seem that the responsibility rests with those having knowledge of the facts or having easy access to them. Responsibility rests with teachers, clergy, editors, professional people, business management, and in fact all community leaders.

II. Construction of a Program

HERE briefly are the steps that we took in constructing the program:

First we analyzed all of the surveys of public attitudes dealing with the

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question. We then listed the basic "areas of ignorance" which needed treatment. We reduced the necessary statistical data to the simplest possible visual presentation of the essential facts. We then put these into a sequence and tied them together by the commentary which is delivered by the group leader. The original information was placed in chart form on large, turnover charts.

As a second step we were then ready for a test. These charts were taken to two groups in Texas and two groups in the coal fields of southern Illinois. In each of these four groups the leader presented the charts and the commentary.

In each case a survey of the factual economic understanding and the collectivist attitude of employees was made before the start of the first meeting. This was done by the use of a very simple anonymous 20-item questionnaire. The questions provide for multiple-choice answers, and the employee has only to check what he thinks is the proper answer. The questionnaires are unsigned. It is not possible to identify individuals. Consequently the employees are frank and fearless in their answers.

At the conclusion of each of these four meetings, the same identical questions were administered to the same groups again.

The results were encouraging; however, as might be expected, we found that much of the information we thought we had simplified still remained too complicated to be understood. We then simplified or eliminated those charts which proved difficult of understanding. The changed

program was then subjected to additional field testing for comprehension, and only those charts which really communicated were retained.

During the course of this refining, we were able to reassemble one of the original test groups four months later for a third measurement, in order to find out how much of the improvement remained after some time had elapsed. It was very encouraging to find that the group had retained virtually all of the improvement.

FOR our third step the information was next given to the artists for completion of the drawings. The material was then placed on Kodachrome strip films.

The program is designed for three discussion periods lasting from one and one-half to two hours each.

The strip film makes the program readily usable for any group. A conference leader of ordinary intelligence and ability can handle it.

We considered the question of a talking motion picture, but this was dismissed because of the cost and because it is not subject to conference discussion as well as the strip film.

The possibility of cutting records which would play the continuity and supply the leader's comment was thoroughly investigated. It had in its favor:

- a. The commentary would always be the same;
- b. Little leader training would be necessary;
- c. It would be easily portable;
- d. It would be relatively inexpensive.

Opposed to these advantages were several disadvantages. A record and film must run at a specified speed in

EMPLOYEE INFORMATION ON AMERICAN ECONOMIC SYSTEM

order to stay in synchronization. This makes it almost impossible to stop and engage in discussions of any particular point. We believe that discussion itself is one of the best learning methods. We wanted to encourage it.

We believe that any voice on a record is essentially a strange and foreign voice. It does not have the same warmth nor credibility as the voice of a local employee talking to people whom he knows. We felt this securing of intimacy and group solidarity was worth encouraging. Therefore we decided upon a live leader rather than a recorded discussion. Our field testing has confirmed the desirability of this. The before-and-after measurements further indicate that this is possibly the best method.

THE fourth step involved the training of conference leaders. Live leadership of the conference requires a training school for conference leaders. There is a leaders' manual in which every frame in the slide film is numbered and the appropriate comment is suggested. The references which document the facts are also presented in the manual under the slide number.

In this fashion the leader is never out on a limb. He has easy and constant access to the facts which he is presenting and he can identify the sources if that is required. Since the facts are largely from government sources, there is little disposition on

the part of the groups to question the authenticity or the honesty of the factual matter.

The leader training school consists of a 3-day session, eight hours each day, in which the films are presented, the leaders are taught the method of presentation, shown the sources of information, and taught some of the fundamentals of conference leadership technique. They are then supplied with a kit of demonstration equipment to make some visual demonstrations, a set of films, a manual, and are provided with a projector by the company using the program.

The final step was the distribution of a booklet. At the completion of the course all of those in attendance are presented with a 4-color booklet containing all of the slides which were used in the course. Thus it may be seen that the attempt has been to utilize all of the best methods and techniques for communicating facts and information one to another. These include:

- The spoken word
- The written word
- Illustrative charts
- Figures
- Color
- Group discussion
- Three-dimensional props

III. Results

THE effectiveness of the program is best illustrated by citing some



Q "THOSE of us in the power business need not assume any particular credit for having developed some effective methods for arresting the trend towards too much reliance on government. We had to do it in order to prevent our business from being socialized."

PUBLIC UTILITIES FORTNIGHTLY

of the before-and-after results recorded on the questionnaires which have been answered by about 19,000 employees. To our knowledge the course has been presented to almost 100,000 people.

Not all companies have been willing to use before-and-after measurements. Some of them have been fearful, without any real reason. Nevertheless, the sample is big enough and the coverage is broad enough geographically and diverse enough in readership to make the 19,000 sample a reliable one.

HERE are a few selected examples of results obtained:

No. 1 After a company has paid for materials, taxes, and other costs, who would you say gets the largest share of the money that's left to be divided between the employees and owners—the employees or the owners?

	<i>Per Cent</i>	
	<i>Before</i>	<i>After</i>
Employees	59.7	85.7
Owners	32.3	10.8
Don't know	8.0	3.5
Totals	100.0	100.0

No. 3 What happens when a company adds new and better machinery year after year—do you think this reduces the number of jobs or not?

	<i>Per Cent</i>	
	<i>Before</i>	<i>After</i>
Yes, reduces jobs .	41.1	18.0
No, does not	53.8	77.9
Don't know	5.1	4.1
Totals	100.0	100.0

No. 5 Which of these would you say has done most to improve living standards in this country?

	<i>Per Cent</i>	
	<i>Before</i>	<i>After</i>
Better tools and machines	57.2	82.7
Strong labor unions	22.7	9.8
Government help .	4.4	2.2
Superior workers .	12.4	3.7
Don't know	3.3	1.6
Totals	100.0	100.0

No. 7 Which of the following two ideas about how to improve the American workers' standard of living do you think is more nearly correct?

"The way to improve the workers' standard of living is for all workers to produce more."
or
"The way for workers to increase their standard of living is for them to get more of the money the company is already making."

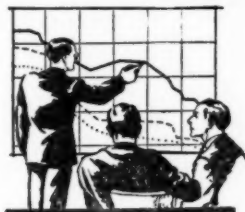
	<i>Per Cent</i>	
	<i>Before</i>	<i>After</i>
Produce more ...	52.0	77.0
Get bigger share .	17.0	7.0
Both	23.7	11.4
Don't know	7.3	3.7
Totals	100.0	100.0

No. 15 Are you for or against government ownership of the banks in the country?

	<i>Per Cent</i>	
	<i>Before</i>	<i>After</i>
For	21.3	15.1
Against	76.7	82.3
No answer	2.0	2.6
Totals	100.0	100.0

No. 19 Do you think it is the responsibility of the Federal government to see that everyone who is willing to work has a job?

	<i>Per Cent</i>	
	<i>Before</i>	<i>After</i>
Yes	46.3	39.6
No	51.4	57.3
No answer	2.3	3.1
Totals	100.0	100.0



Knowledge Leads to Conviction

"... knowledge of economic facts tends to be associated with belief in and support of the principles of private ownership of property and the moral values of individualism. Ignorance of economic facts tends to be associated with willingness to believe in and support the doctrine of reliance upon the government for the solution of personal economic problems."

Many of these employees are employees of power companies and have had a thorough indoctrination in the evils of statism ever since the early thirties. Other employees that have not had employee information programs of any kind would be less informed.

NOTHING in the program deals with labor unions as such. In fact the term "labor" or "labor union" never comes into the discussion unless it is brought up by some member of the group from the floor. The facts presented in the course are strictly noncontroversial.

The willingness of employees to receive this information—in fact, their very thirst for this kind of information—is revealed by their responses to questions asked them at the conclusion of the three meetings about whether or not they liked the meetings and would like to have more of the same kind.

The following figures are taken from an "after" meeting of a group of first-line supervisors in a large aircraft parts manufacturing company. The replies are typical of the replies that have also been received by employees of utility companies.

How interesting were these meetings in your opinion?

Very interesting	79%
Fairly interesting	19
Not too interesting	0
Pretty dull	0
No choice	2

Was enough time allowed at the meetings for the group to talk things over?

Yes, enough time	83%
No, not enough time	15
No choice	2

Did you enjoy seeing the films that were used at the meetings?

Yes	97%
No	1
No choice	2

Do you feel that people in your meet-

PUBLIC UTILITIES FORTNIGHTLY

ing group really expressed their honest opinions, or not?

Yes	96%
No	3
No choice	1

Did you yourself agree with most of the main ideas brought out in the meetings, or not?

Yes, I agreed	94%
No, I didn't agree	4
No choice	2

Do you feel that the meetings were of any value to the men who attended?

Yes	99%
No	0
No choice	1

Do you feel the meetings gave you a better understanding of how our business system operates?

Yes	94%
No	1
No choice	5

Do you feel that meetings like this help a man to be a better citizen, or not?

Yes	97%
No	0
No choice	3

Would you like the company to hold more meetings of this kind or not?

Yes	95%
No	1
No choice	4

MANAGEMENT sometimes questions the advisability of devoting as much as six hours of employee time to discussions of economics. There is a tendency to determine the expense of the course by multiplying the number of employees by the employee hourly rate by the six hours.

In our opinion it is erroneous to consider this as a cost of employee information. We are not yet able to prove statistically that the increased productivity more than pays the cost

of the time involved. Up to this time we have not been able to test the program in a situation in which the variables can be controlled sufficiently to provide an accurate test. We are hopeful that we will find a situation which will give us the chance to make such a test.

We therefore must rely on common sense. An employee works about 2,000 hours a year. Six hours represent three-tenths of one per cent of his time. Almost everyone is likely to agree that well-informed and satisfied employees will be more productive than ill-informed and prejudiced employees. It is quite likely that waste will be lower, rejects fewer, slow-downs and strikes more uncommon where employees are reasonably satisfied and well-informed. There is evidence that better-informed employees tend to be better satisfied. Is it not reasonable to assume that his efficiency will increase by at least three-tenths of one per cent?

IV. How the Program Is Being Used

FOLLOWING are a few examples as to how the program is being used:

A. Individual companies. Individual companies conducted the program among their employees. Conference leaders are usually selected among the first or second level supervisors. The meetings are held on company time in groups of fifteen to thirty. The meetings are scheduled from once a week to once in four weeks. Usually one conference leader is required for about 200 employees.

When a company thus puts on a program, the idea usually spreads to other companies and groups in the area.

EMPLOYEE INFORMATION ON AMERICAN ECONOMIC SYSTEM

B. Statewide Plan. In the state of Utah the community leaders decided to deal with the problem on a statewide basis. They organized the Industrial Relations Council of Utah. Many large firms, including the Utah Power & Light Company, co-operated by presenting the program to their employees on company time. The Utah State Automobile Dealers' Association participated by holding meetings in dealers' showrooms and service shops. Thus the program worked down from a state level to the basis of individual communities and individual companies.

In Pennsylvania, the Pennsylvania Power & Light Company, after presenting the program to all of its employees, found a demand for presentations before civic groups and schools.

In Missouri the Agricultural Extension Service of the state university has found the material of interest to agricultural groups.

In Wisconsin, Connecticut, and Iowa the program has been widely presented before civic groups.

C. Colleges. Typical of what a college can do is indicated by the course conducted by Northland College of Ashland, Wisconsin. The school designed a 5-day short course for conference leaders. They called it a "Freedom Leaders Council." Indus-

try was invited to send representatives to be trained as conference leaders on matters having to do with the American economic system. The school charged a tuition of \$100 per person for the course.

The school used the American economic system program as a basis for training conference leaders for industry.

Other small colleges are planning similar activities.

V. Conclusion

OVER the past ten to fifteen years a great deal has been done by many groups and organizations to find the cause of the trend towards Socialism. The evidence indicates that much of this trend can be traced to a lack of knowledge of economic facts and principles on the part of many people. The cure and remedy appear to be in the presentation of facts.

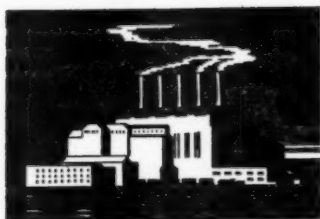
There is now available to community leaders from many sources, material and equipment to use as a tool for dispelling the misinformation that causes the trouble.

We can contribute our part in correcting this dangerous trend by

- (1) assuring ourselves that our employees are thoroughly informed, and
- (2) telling other community leaders about it.

"THOSE who say that private enterprise—in the power business or anything else—can't do the biggest jobs are either ignorant of the facts or are trying to delude the public into believing that Socialism is the only answer. The truth is that Socialism is a producer of scarcity and underproduction—as witness the extremely critical power situation now developing in England."

—EDITORIAL STATEMENT,
Industrial News Review.



Your Service—Do Your Customers Like It?

How a municipally owned and operated utility went about conducting a simple and inexpensive survey of customer opinion.

By E. A. COMBATALADE AND FELIX REHMAN*

"How are we doing in the eyes of our customers?" That is a question of constant concern to all public utilities.

After four and one-half years of operation as a distribution system, the Sacramento (California) Municipal Utility District felt the time had come to make a systematic effort to obtain an answer to this question. However, we did not want to commit ourselves to an expensive program. We, therefore, searched for an opinion poll that would be effective without requiring additional personnel.

The experience of other utilities indicated that a post-card survey would give us only meager returns even if we included the convenience of a stamped, addressed reply card for the recipient.

Nevertheless, because of its low

cost, this was the method we decided to try. We mailed out approximately 1,000 cards. To our surprise, fully 42 per cent were answered.¹

Rather than make a general inquiry addressed to all our customers, by asking them, in effect, *how do you like your utility district*, we addressed only those who had just requested and received a utility district service, and asked them, first, "Were you satisfied with the way your request was handled?" and, second, "If our service has been unsatisfactory in any way or if you have suggestions on how we could improve, please tell us below." Thus, we were testing specific services and at the same time encouraging general comments regarding our operations.

¹ "The company recently reported 186 (post cards) returned out of 1,000 mailed, which is high. Don't be surprised or disappointed if a post-card survey is tried, to find that the return is much less." (From a paper read at National Conference of Electric and Gas Utility Accountants, St. Louis, 1948.)

*For personal notes, see "Pages with the Editors."

YOUR SERVICE—DO YOUR CUSTOMERS LIKE IT?

THE two statements were printed on the reply portion of a double post card, and the customer was given the opportunity to check "Yes" or "No" in reply to the question "Were you satisfied . . ." and/or to use the six 5-inch, blank lines for making comments. A line was also provided for his signature. We wanted to en-

courage the signing of the return cards, so that, should the customer receive a reply from us, he would know that we had identified him by his name and not necessarily by a code.

The other half of the double post card—the part used in addressing the customer — contained the following message:



CUSTOMER-OPINION SURVEY, APRIL 23-AUGUST 15, 1951

	<i>Approximate Number of Services Rendered</i>	<i>Cards Mailed</i>	<i>Cards Returned by Customer</i>	<i>Favorable Replies</i>	<i>Un- favorable Replies</i>
1. New Service	2,700	270	90 (33%)	83 (97%)	7
2. Trouble Calls	3,120	312	140 (45%)	123 (91%)	17
3. Appliance Repair	1,045	209	109 (52%)	105 (97%)	4
4. Adjustment Calls	512	128	48 (38%)	39 (81%)	9
5. Advisory Service	168	47	22 (47%)	22 (100%)	0
Total	7,545	966 (13%)	409 (42%)	372 (92%)	37

FAVORABLE REPLIES

"Yes" Plus Complimentary Comments

Specific Comments**

	<i>Checked "Yes" Only</i>	<i>Total</i>	<i>General Comments Only*</i>	<i>Speed Efficiency</i>	<i>Courtesy Helpful- ness</i>	<i>Outstanding Service by An Employee</i>
1. New Service	40	43	19	19	7	2
2. Trouble Calls	62	61	22	29	19	1
3. Appliance Repair	40	65	25	29	20	5
4. Adjustment Calls	20	19	4	8	8	1
5. Advisory Service	8	14	2	5	10	5
Total	170	202	72	90	64	14

UNFAVORABLE REPLIES

	<i>Delay</i>	<i>High Bill</i>	<i>Defective Wires</i>	<i>Low Voltage</i>	<i>Damage To Prop.</i>	<i>Other</i>
1. New Service	3	—	—	—	—	4
2. Trouble Calls	3	—	5	3	2	4
3. Appliance Repair	1	1	—	—	—	2
4. Adjustment Calls	2	6***	—	—	—	1
5. Advisory Service	—	—	—	—	—	—
Total	9	7	5	3	2	11

* "Very good"; "Excellent"; "Very satisfactory"; "Fine," etc.

** Figures represent number of comments, not number of cards, because some cards contain more than one specific comment.

*** Customer checked "No" and reiterated his original complaint.

PUBLIC UTILITIES FORTNIGHTLY

Dear Customer:

I have been informed that you have recently called upon us regarding your electric service.

This is to ask your help in our constant effort to give the best service possible to all our customers. Your reply on the attached card will give us this help. It needs no stamp. Just fill in, detach, and mail.

I will greatly appreciate your comments and suggestions.

Sincerely yours,
Sacramento Municipal Utility
District

By
Director of Public Relations

The customer-initiated transactions polled immediately after completion comprised (1) permanent or temporary service connections; (2) trouble calls such as reports of outages, flickering lights, low voltage, defective service wires, radio interference, etc.; (3) appliance repairs; (4) calls in response to requests to investigate "high bills" and in response to various complaints; and (5) advisory service calls on electric cooking, adequate wiring, lighting, farm electrification, etc.

Of each group, a certain percentage of the daily transactions, constituting a reasonable sample, were followed up by the card. The percentages varied from 10 per cent to 25 per cent. Altogether, of about 7,500 customers who over a period of four months received the services listed, 13 per cent were polled.

IT was agreed that the mailing of all the cards and the handling of the replies should be conducted by the director of public relations and should include only personnel not involved in the rendering of the services followed up.

To reduce the cost of the survey to a minimum, departments were not asked to submit a list of the names and addresses representing their daily transactions but to submit instead the forms on which that information is normally recorded. Thus the sources used in addressing the post cards were such forms as completed trouble tags, adjusters' reports, and meter orders.

As each card was typed, it was coded on the reply part for easy identification of the reply, and a duplicate was made on a slip of the same size as the card. These slips were filed in groups representing the various services and numerically by code within the group. Had we been engaged in mailing several thousand cards, we would have considered printing the cards in a continuous strip with matched carbon paper and duplicate strip. This would have accelerated the typing. However, even by the slower method we used, we were able to spread the clerical operations of the survey among existing personnel by taking advantage of slack periods in work load.² Since, in addition, the cards furnished by the printer cost only 4.6 cents apiece, the expense of the survey was gratifyingly low, at least up to the point of mailing the cards.

The Replies

THE question was, would the replies involve us in considerable investigation, policy consideration, and letter writing? Our answer to this question was that if our customers handed us a big job by making many

² This did not mean delaying the mailing more than two days after completion of transaction.

YOUR SERVICE—DO YOUR CUSTOMERS LIKE IT?



TYPICAL REPLIES RECEIVED TO POST-CARD FOLLOW-UP OF SPECIFIC SERVICES

"It is indeed gratifying to know we can get prompt efficient service such as was rendered recently by one of your employees."

"I was very pleased with the immediate action to recheck the meter but I still don't see how I used that much electricity in six days . . ."

"We were very well pleased with the prompt and courteous service we received from our call and wish to thank you very much."

"Your wire leading over our building appears to be in a very unsafe condition . . ."

"Your service has been very satisfactory."

"The electricity was turned on the same day that I phoned, even though I allowed you three days."

"Miss _____ was very helpful. She taught my wife many very useful things about our range."

complaints or suggestions, we should have such an opportunity to correct faults, improve procedure, and win customer good will, that no amount of work would be excessive.

As it happened, the replies to our opinion poll added little to our work load. There were few complaints and—unfortunately, in a way—fewer suggestions for improvement. What was most gratifying was the number of positive compliments on our efficiency, courtesy, and general helpfulness. A summary of the results will be found in the table on page 543.

When a customer referred to exceptional service received from an employee, that employee's supervisor was notified. A copy of the memorandum to the supervisor was placed in the

employee's central personnel file. This was done not only to give credit where credit is due but to encourage the employee to keep up the good work.

In conducting this survey, we went on the premise that dissatisfied customers, no matter how few there may be or how unreasonable any one of them may seem to be, are trouble spots in our public relations which have a tendency to spread and create ill will against the organization. Therefore criticisms, no less than inquiries and requests, were promptly answered either by letter or by telephone, or a call was made on the customer by an adjuster or appropriate specialist.

Appraisal

WHAT benefits can we ascribe to our inquiry into the minds of our

PUBLIC UTILITIES FORTNIGHTLY

customers? The survey invited some of our dissatisfied customers to bring their complaints to our attention, and it gave us a chance to clear up misunderstandings and convert some critics into friends. In a few cases, the complaint elicited by the survey led to the uncovering of a faulty procedure and permitted us to make a corrective change. That much is certain.

Not definitely established but probably true is the notion that our inquiries, whether answered or not, generally left a favorable impression with the recipients. While some of the latter may have disapproved of the survey, it seems reasonable to assume that the majority were pleased.

That we can feel assured of substantial approval of our present method of rendering service seems probable. The conclusive evidence of this is lacking because of a difficulty characteristic of all mail polls: You know that you are addressing a representative cross section but you do not know how representative the replies are unless everyone, or nearly everyone, replies. Thus, how many of the 58 per cent that did not reply to our cards refrained because, although dissatisfied, they did not want to go on record as saying so? Many people are reluctant to complain and hesitate to offer suggestions.³ On the other hand, some writers on public opinion surveys claim that people who feel strongly antagonistic are more outspoken than

those who feel very friendly, and consequently the showing of the "antis" in a mail poll is said to be out of proportion to their importance.⁴

It is interesting that among the 403 replies only one customer referred to bimonthly billing, which we recently adopted. No irrelevant or flippant remarks. No unsigned statements were received.

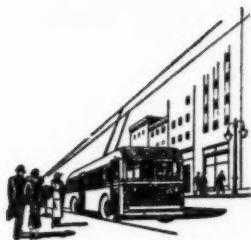
These Polls Are Worth While

WHILE the results of our trial balloon into the volatile atmosphere of customer opinion may not be conclusive, we believe they show that to get an estimate of what your customers think of your service and to uncover any important customer dissatisfaction that may exist, you need not set up an elaborate, expensive survey. By using the method here described you can afford to test the effectiveness of your service more often. We at the Sacramento Municipal Utility District feel that the results we have secured warrant continuing surveying customer opinions, and we plan to enlarge our samplings and try different approaches.

The customer may not always be right—in half of the criticisms we received he was mistaken—but right or wrong, how he feels toward your service, your product, your people is as important for you to know as the weather to a farmer.

³ "Most people are naturally inclined to be agreeable. They may grumble to themselves, their family, or their friends about something that displeases them; but they won't take the trouble to register a real 'kick' with the company responsible." (John C. Faris in "Customers Have Ideas, Too!" *PUBLIC UTILITIES FORTNIGHTLY*, May 22, 1947, page 671.)

⁴ "In general, the 'unfriendly' view is held with greater intensity than the 'friendly' attitude. Critics are more likely than favorable individuals to hold their views with consistency and intense conviction. In other words, the importance of the critics is out of all proportion to their numbers." (Leo Bogart of Standard Oil of New Jersey in "Use of Opinion Research," *Harvard Business Review*, March, 1951, page 118.)



A Contractual Alternative to Socialized Transit

Socialism is not the only answer or even the best answer to the present-day inflationary problem of making ends meet despite rising wages, taxes, etc. A public contract can retain the advantages of private enterprise in the view of this author.

By GRAEME REID*

Transit—A Business Enterprise

TRANSIT is a business enterprise and not an eleemosynary institution or charitable organization. Relieved of special taxes and assessments, given its fair share of street space or other right of way, and allowed to operate the quantities of service on the routes, at the times and for the fares that may be economically justified, transit can afford a good and efficient service at a very reasonable price. This cannot be accomplished, however, with an inadequate fare structure and enforced continuance of uneconomic portions of the service.

Public Ownership?

THERE is little to indicate that public ownership is the solution. One of transit's primary difficulties lies in the conflict between economic and

political considerations with, in too many cases, the political elements having the upper hand. Public ownership not only fails to cure this unfortunate situation, but often only results in less efficient and more costly operation, no better service, and higher fares. Municipal authorities appear to have become increasingly mindful of this situation and are now fighting shy of becoming involved in the transit "headache."

The "authority" type of management, such as exists in Chicago, Boston, and Toronto, is something of a compromise between private and public ownership. It successfully accomplishes one of transit's primary objectives; that is, relief from taxes. At the same time it tends to minimize local political interference. In some instances authorities may set their own fares.

Why relief, at least from the ex-

*Senior engineer of the firm of Ford, Bacon & Davis, Inc., New York, New York.

PUBLIC UTILITIES FORTNIGHTLY

cessive requirements of antiquated franchise provisions, cannot be accomplished without resorting to public ownership is not entirely clear. It may be based on the theory that no untaxed enterprise should be allowed to remain in private hands. This might be sound in the case of unregulated businesses which are permitted to charge what the traffic will bear and are not necessarily essential to the public welfare. No reason appears, however, why it should apply to a utility which has every phase of its business always open to public scrutiny and control.

THE authority type of operation might be likened to that of a well-regulated private transit company which has been relieved of the burden of excessive political interference and taxes. However, in so far as the private company has the incentive of earning a profit, it would seem that such private operation would tend to be more efficient and afford a better service than might be expected from an authority which does not have this incentive.

Recent proposals have suggested a method by which cities may purchase their local transit properties with revenue bonds, remove the taxes, and lease or rent the system back to the company for operation. While this is better than outright city ownership and operation, the authority system would seem to have greater advantages in most cases.

Profitable, Unprofitable, and Potentially Profitable Services

A SUBSTANTIAL portion of the various services on most properties

may be operated profitably under present conditions. Other portions of these services might be made profitable with scientific adjustments of fares and service. The final portion probably cannot be profitably operated under any conditions. In combination, these three elements of operation are apt to add up to an over-all losing proposition. Whatever portion might be profitable may be more than offset by the unprofitable portions.

Any determination of what is profitable, what may be made profitable, and what cannot be made to pay will be difficult and require very careful consideration of all technical, financial, and economic considerations that may have a bearing on the subject. Portions of the service include not only various routes or lines but also various parts of these routes and lines and these, in turn, further broken down by various times of year, days of the week, and hours of the day.

THE over-all property may be improved by the elimination of certain lines, but some of these lines, in their turn, might be made profitable by the elimination of a portion of their routes or a portion of their service, such as Sunday or late night operations. Economic studies of some lines may show that route changes or service adjustments or changes in fare structure, such as zone fares or a special fare separately applied to that particular operation, could bring about a sufficient change in revenue or costs or both to put them on a paying basis. Surely there is no more reason why every line on any given property should charge the same identical fare than that it should operate the same

A CONTRACTUAL ALTERNATIVE TO SOCIALIZED TRANSIT

identical volume or frequency of service.

The Facts of the Situation

THE solution for the difficult situation in which transit finds itself, if solution there be, should rest upon a straightforward, businesslike approach based on sound economic principles and unequivocally facing the facts as they exist in each case, realizing that no two situations will ever be quite the same.

First, it must be recognized that transit is an independent business enterprise, marketing a product for which there is still a substantial demand at an adequately supporting price. In this matter of price, attention is directed to the accompanying table (see below), which shows how transit fares would have been increased if they had followed the increase in the cost of living as indicated by the U. S. Department of Labor consumers' price index. Transit has been particularly hard hit by rising costs, and no reason appears why the riding public should not meet these increased expenses by paying at least as much more as they are paying for practically everything else.

Secondly, let us recognize that transit is an industry essential to the community and it is very much in the public interest to keep it healthy. The only technical difference between transit and any other business is that transit is classified as a utility and may not make an excessive profit, but surely this cannot be construed to mean that it should indefinitely continue to operate at a loss under a political conception of what constitutes public necessity. The profit limitation was imposed at the time when transit was presumed to enjoy something of a monopoly.

Today, private automobiles and taxicabs make transit one of the most competitive industries in existence.

THE facts are that transit is pretty universally in difficulty because the over-all cost of its product has risen way beyond the price which it has been permitted to charge and the size of its market has been sharply reduced (see chart, page 551) due for the most part to sharply increasing private automobile competition.

There is not at this time any evidence of any improvement in sight.



EFFECT OF THE APPLICATION OF U. S. DEPARTMENT OF LABOR
CONSUMER'S PRICE INDEX TO VARIOUS TRANSIT FARES

<i>If an adequate fare in 1940 was—</i>	<i>Based on the price index the comparable fare at the end of 1951 would have been—</i>
5¢	9.5¢
6	11.3
7	13.2
8	15.1
9	17.0
10	18.9
11	20.8

While the price index has risen nearly 90 per cent since 1940, industry-wide average fares (operating revenue per revenue passenger) have been increased less than 65 per cent since 1940.

PUBLIC UTILITIES FORTNIGHTLY

Labor is not likely to reduce its demands and those who can afford to use private cars will not be induced to use transit, except under the most adverse traffic conditions. The result is that an increasing portion of the services afforded fall under the category of those that cannot be profitably operated under any conditions.

There is certainly no reason why transit, an independent business enterprise, should be expected to contribute to the public welfare any more than is expected of any other business. Transit should, however, recognize that there are perfectly sound, as well as unreasonable, political reasons for special consideration in certain cases.

Proposal

It is urged, however, that wherever the general public demand requires the continuance of unprofitable service, such service should be paid for by the general public making the demand. No reason appears why this should not be accomplished by a businesslike contract between the transit company and the city, the political group, the local section, or whatever entity is involved.

No great innovation is involved in this suggestion. Many cities contract for snow removal services, trash disposal, and the like. Many transit companies operate under contracts with schools, stores, merchants' associations, hotels, real estate developments, and such. If the public in its wisdom determines that a certain unprofitable service is necessary and in the public interest, no reason appears why that service should not be supported, at least in some measure, by the public so determining.

Contract Negotiations

A CONFERENCE between a transit company and city officials, or other public entity, might take the following form:

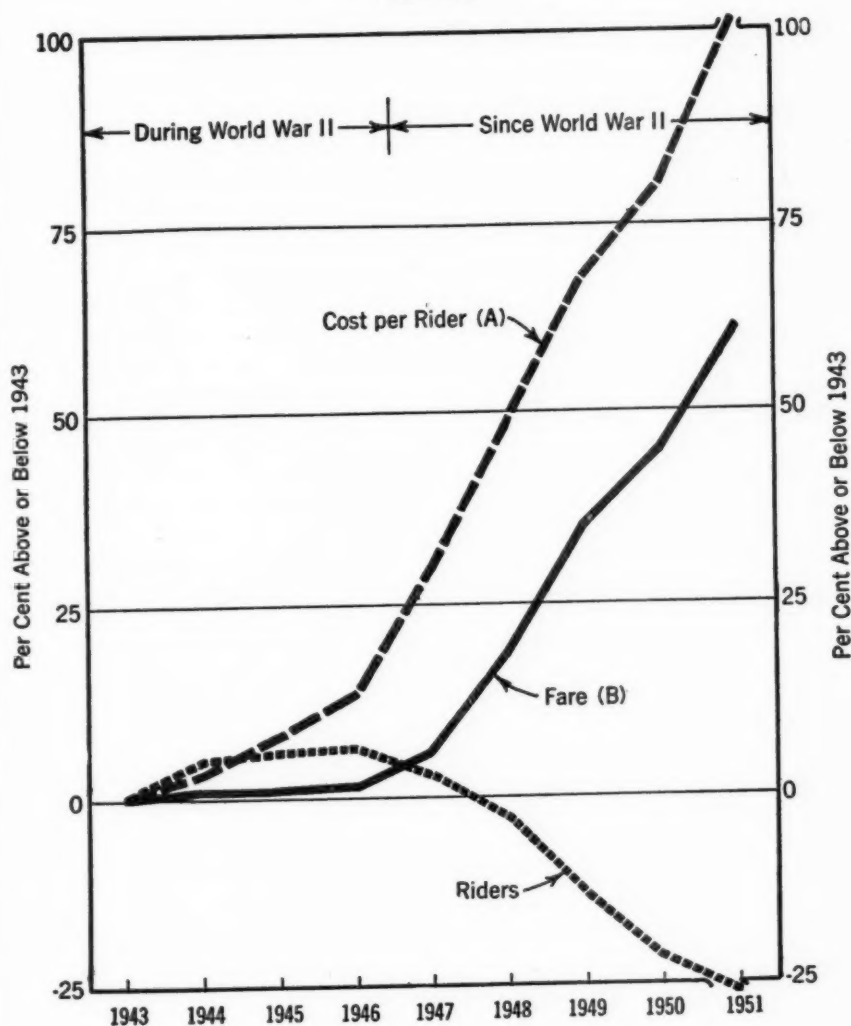
"The facts are as above stated. We the transit owners, do not want to give up the business and you, the city officials, do not want to take it over. We can afford to continue only a portion of our present services. By permitting certain adjustments in routes, service volume, and fares we may continue to operate a considerably larger portion of these services. The remaining portion must be disposed of or provided for in some other practical way.

"We will continue to operate these hopeless services, as efficiently as possible and in whatever manner you deem it to be in the public interest, under a contract negotiated to provide for a specific amount to be paid to us by you, such amount being sufficient to at least make up the difference between the cost of the operation and the revenue obtained therefrom. In the case of the intermediate services, we will submit such fare and service schedules as we believe will make these operations self-sustaining. Any additional service or lesser fares that you deem to be in the public interest will be maintained by us under a specific contract negotiated in the same manner as those for the hopeless transit services.

"Or, if you wish, we will negotiate an over-all contract, annually renewable, which will cover all conditions specified by you that are determined to be not economically feasible for the continuance of safe, adequate, and proper service on the system as a whole."

A CONTRACTUAL ALTERNATIVE TO SOCIALIZED TRANSIT TRANSIT INDUSTRY

CHART OF RECENT TRENDS IN TRANSIT FARES, COSTS, AND RIDERS 1943 - 1951



Note (A) - Operating Expenses per Revenue Passenger

Note (B) - Operating Revenue per Revenue Passenger

Source: Basic Data from American Transit Association Statistics (1951 Figures Are Preliminary)

PUBLIC UTILITIES FORTNIGHTLY

NEGOTIATING for a contract price would probably be, and should be, quite an involved process. In the event that there may be other operators in the same territory it is conceivable that the city might call for bids and award its contract to the lowest bidder. This would require a careful setting forth by the city of just what it wants, including such primary questions as the route or routes to be covered, the amount of service to be operated, on which days of the week and at what times of the day, the fares to be charged, type of equipment to be operated, and so forth. Other considerations, such as special city concessions in the matter of taxes and traffic congestion might also be made part of the contract. The free and open discussion of all these many factors would in themselves have an automatically beneficial result by calling the attention of public officials to the many problems involved.

Barring the possibility of a bid contract, the alternative would be simply a negotiated contract based on unit and over-all expenses, estimated traffic, and such other considerations as may be involved. In this case the controlling price would lie between how much the city is prepared to pay for the service and how much the company figures it will cost. The company in this respect may base its price on the total cost of the individual operation in question less the estimated anticipated revenue, or may give consideration to other factors such as possible contributions for this particular operation derived from other more profitable services or possible city concessions that will beneficially affect the over-all operation. It is not beyond

reason to expect that under these suggestions for an isolated operation, the city will discover some over-all concessions it might make which would so improve the general picture as to permit continued operation of the losing service without the necessity for a supporting contract.

Form of Contract

CONTRACTS may be on an annual basis, renewable from year to year as may be necessary. They may include provisions for reopening and renegotiating on notice by either party if preliminary estimates are found to be too far out of line. They may be in the form of a lump sum or provide for adjustments based on variations in the amount of service, the amount of passenger traffic, or other changing circumstances.

Actually, there is no limit to the possible provisions or variations in such contracts. It is felt, however, that they should not be on a cost-plus basis or designed so that actual losses are figured from time to time and the difference made up by the public. Such contracts become a simple public subsidy and would tend to reduce initiative on the part of the operating company. It is essential that the transit company have some incentive and interest in maintaining good service and in developing new business.

There is no reason why these contracts need necessarily conform to the amount of contemplated losses. In some cases they might be more profitable or less unprofitable than in others. It must be assumed, however, that a limiting condition would be that the over-all operation not show an excessive profit.

A CONTRACTUAL ALTERNATIVE TO SOCIALIZED TRANSIT

It might well be that these contracts would be subject to specific approval by state regulatory authorities. It may be that enabling legislation will be required for the making and enforcing of such contracts. However, if this is in any way a solution of the problems involved, it should not be too difficult to obtain the necessary commission approval or legislative enactments.

Possible Public Concessions

THERE are a number of public concessions that may be made without resorting to public ownership. Certainly burdensome taxes that are a hangover from ancient franchise obligations are no longer equitable. The transit franchise has changed from a privilege into an obligation to give to the public too much for too little.

Another matter of maximum importance to both city and transit company alike is the question of traffic congestion. Much is being said and much is yet to be said and done in this connection. The futility of attempting to afford sufficient street space to accommodate all the necessary traffic, including a seemingly inexhaustible reservoir of private car commuters, shoppers, and parkers, is becoming increasingly evident.

Traffic studies and analyses show

that the ratio of street space required for each passenger carried in a private automobile as contrasted with a transit vehicle is in the order of 40 to 1. Unless more consideration be given to the transit vehicle, and the transit problem in general, conditions will continue to deteriorate to the point of utter traffic stagnation. The problem must be given prompt and serious consideration. An enlightened view of this situation is that the best and cheapest and perhaps the only economically feasible solution to the congestion caused by private cars lies in the expeditious handling of transit vehicles.

ACCORDINGLY, public concessions in the matter of facilitating transit vehicle operation are of primary importance. If restricted streets, private rights of way, subways, monorails, or some other not yet devised form of speeding the way of transit riders is necessary, these things should come before spending much more time, money, and effort on street space for the private car.

In view of the fact that such provisions are primarily to the advantage of the general public, automobile users and transit riders alike, surely there is no reason why they should not be provided and maintained by the public. No reason appears why cities now owning such facilities should not



Q "THE solution for the difficult situation in which transit finds itself, if solution there be, should rest upon a straightforward, businesslike approach based on sound economic principles and unequivocally facing the facts as they exist in each case, realizing that no two situations will ever be quite the same."

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charge the cost of owning and maintaining them in the same manner as they provide for the costs of their streets, and, following the same thought, no reason appears why the cities should not acquire and maintain any such facilities, now privately owned, without in any way impairing the private ownership, maintenance, management, and operation of their own equipment and other facilities. The question might well be asked why the transit rider should pay for his own street space while the private car rider, taking up some 40 times as much room, gets his street space free.

A final consideration might well be elimination of pressure brought on the industry by public officials for special considerations and concessions not consistent with sound economic principles.

Advantages

CONTRACTING for unprofitable portions of the service or even for the maintenance of an over-all non-compensatory fare, will have a dual effect of putting the transit company on a paying basis and making the public group involved more acutely interested in what goes into the cost of operation. Any city making or contemplating making payments on such contracts will be far more interested in and sympathetic toward proposals for relief from special taxes, traffic congestion, and other transit burdens.

Unquestionably, the difficulty of convincing any public authority of the necessity for such contracts will be very great but should not be insurmountable. Entirely too many transit properties are at the point where they

may demand such contracts as an alternative to going out of business altogether. There was a day when cities were not averse to taking over the transit operations, but that day is pretty much gone by and they will go far to sidestep such an eventuality if there is any way to avoid it. Separating out the various parts and types of service makes possible individual and isolated contractual negotiations independent of the over-all situation. By this means each part can stand or fall on its own merits.

HOWEVER, rather than by threat, a strong selling point would be the benefit to the city of a sound transit system operating a good and sufficient service for which the city may take considerable credit at a relatively small cost. In many cases, it might well be that once a smoothly operating, efficient, and adequate transit system is established, contract payments could be substantially reduced if not eliminated.

It should be emphasized that, under this plan, the retention of antiquated franchise taxes would become obviously inconsistent. For the city to collect such a tax in one hand and pay it out on a contract with the other would be clearly illogical.

This proposal for public service contracts is no cure for all of transit's many ills, nor, by virtue of the wide problems involved, is it possible to present the proposition in specific detail. Certainly it is, however, a more businesslike approach to the problem and a far better solution than political management through public ownership.



Business Dispersal via the T-Bomb

War or peace, our factories are being scattered over metropolitan areas, and dispersal brings problems to utilities.

By JAMES H. COLLINS*

SAID Uncle Sam to Los Angeles, "How well are your factories dispersed for all-out war?"

And Los Angeles replied, as you might expect, with a prideful boost: "In all the world, no greater industrial dispersal than here!"

That was the National Security Resources Board, which is charged with spreading new defense plants over wider areas, as defense strategy. The answer came from the Los Angeles Chamber of Commerce, with maps, diagrams, and statistics prepared by its industrial development committee.

That city has more manufacturing plants than any other except New York, Chicago, and Philadelphia—at the time the survey was made, 5,445 factories in the 452-square-mile city limits. But they have a density of only 12 factories per square mile, where New York has 104, Chicago 49, and Philadelphia 38.

Since Hiroshima, this question of dispersal has been thoroughly debated, from many angles, for and against.

Always from the standpoint of war and bombing. First it was the A-bomb, and now it is the H-bomb.

Curiously, nobody gives a thought to the blockbuster that smashed German industry and communications. That is now old-fashioned.

NOT a word is heard about another explosive force in the dispersal picture, already at work, and certain to go right on dropping, regardless of cold or hot war, and regardless of peace.

This might be called the "T-bomb."

The "T" as in Taxes.

Los Angeles makes a good guinea pig for its study, because it has had exceptional growth the past dozen years. Los Angeles and Orange counties, making up the census metropolitan area, grew 48.8 per cent in popula-

*For personal note, see "Pages with the Editors."

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tion, from 1940 to 1950, compared with New York-New Jersey 10 per cent, Chicago 13.5 per cent, Philadelphia 14.4 per cent—nearly twice the 25.1 per cent growth of Detroit. By number of factories Los Angeles is second in rubber and furniture, third in petroleum products, metal-working, machinery, food, and apparel, fourth in miscellaneous industry.

It may be evolution or revolution, but Los Angeles industry has been dispersing as it grew, for perhaps a generation. And what goes on here, is happening all over the land.

Fifty years ago, land that is now downtown real estate, valued at hundreds of dollars the square foot, sold for a few dollars per acre. Veteran real estate broker Bob McCourt recalls transactions in which hillside land, on which the new Hotel Statler is now being built, changed hands for \$1 an acre. Compared with which Manhattan Island was expensive when bought for \$24.

Those were the days!

Those were the days when the town invited settlers to raise oranges and chickens. "The pursuit of happiness, away from snow and ice" was the bait. The chamber of commerce was then truly a boosting organization, instead of the community engineering staff it has been the past twenty years. It built an elephant out of California walnuts, and booked it for appearances in the East, to mesmerize prospective settlers during the months of snow and slush.

THE settlers came, and it was necessary to find jobs for them, and an important discovery was made: that an orange tree needed as much

water as a human being. It was necessary to reach out with the first aqueduct, and to campaign for factories. Anybody who started or brought in a factory then was a leading citizen.

Those were the 1920's, and the factories were small, often located in an old house or an empty store, right downtown.

"I'd like to show you my plant," said the Los Angeles manufacturer. It was in an empty store, employed maybe six people, and to anybody from an old industrial community was funny. But out of a hundred such enterprises, in which three out of four were doomed to failure for lack of a market, or of experience, or working capital, there would be one that eventually grew into a Douglas or Lockheed aircraft company, or a Hot-Point electric iron company with an appliance so good in competition that it was bought by one of the electrical giants.

Funny in another sense.

By the 1930's more space was needed by the factories that lived and grew, and they began to move out five to eight miles, into surrounding towns where water, sewers, and utility services were available. They were welcomed by incorporated communities like Hollywood, Alhambra, Vernon, South Gate, Inglewood, which today have compact industrial areas. Also, new manufacturing districts were plotted in the fields, and developed for city and utility services with growth.

Downtown land values had risen, along with local taxes.

FEDERAL taxes were rising, fulfilling a prediction made by President Woodrow Wilson when the income

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tax was started. He had said it would be educational. It was then getting into the postgraduate curriculum.

Also, another war was approaching—or another phase of the same war.

That phase materialized, the second war was fought, Los Angeles had phenomenal expansion of industry and population, and contrary to war's end expectations, growth continued. It was not possible to put the industrial jinni back in the bottle.

So industry looked still further afield, to established communities ten to twenty miles away, and here is where the T-bombs began to fall.

Acres were needed now, for many plants, not to say employees' homes when the move was far out. Water, sewers, and municipal services were sought in place, because the individual manufacturer could not locate on raw land and provide them. Telephone, electricity, and gas were needed, and established facilities were a start toward enlargement. Transit was the one utility seldom affected, because the move was out beyond transit lines, and was made to eliminate car and bus riding for employees.

Federal taxes enter into a manufacturer's decision in moving.

If he buys land and builds, he can charge off amortization on his property, but not rent as an operating expense.

If he rents, his monthly check to the landlord is operating expense, affecting his costs favorably.

If he has enough money to build, will he be freezing working capital by doing so, starving his production?

It is the old problem facing the banker when the businessman has started in a very small way, and enlarged old premises as he grew, and is successful in a maze of ramshackle buildings, has become ambitious to build a plant or a store that he feels is worthy. That is the point at which many a thriving business begins to starve for working capital. The banker has to decide whether his borrower is putting too much money into real estate.

Typical of Los Angeles is a rubber manufacturer who moved the other day to a new plant twenty miles out, for he has been through all the phases, beginning with the elephant made of walnuts.

After the 1914-18 war he had a job in a small rubber factory. It went broke. He lost his job, couldn't find another, and so went into business for himself with one secondhand rubber press. He decided to make a single product that was in demand—rubber heels. There was big company competition. He could not afford to put his heels in boxes. So he sold them to shoe repair shops by the pound. Monday to Thursday he peddled heels, and



Q "In the southern California area alone, the past six years, Pacific Telephone has installed 2,510,000 phones, taken out 1,846,000, for a gain of 608,000, 58 per cent increase. It has had to find \$1 billion new investment money and around \$230,000,000 for new plant, an 89 per cent increase."

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Friday and Saturday made them up.

Between wars he built up a business in thousands of miscellaneous rubber products, enlarging around his original shop in a city street. From 1942 to 1945 war production brought still further growth, until he was jammed into this street, up against traffic difficulties, cramped for growth.

So he picked up and moved to an orange-growing town twenty miles away, where municipal services were available.

THE first problem to be settled was the attitude of an elder generation that had lived with oranges, and did not welcome the idea of factories. The elders fear loss of character in the community, and higher taxes on homes. There is a younger generation that likes the prospect of industrial jobs, and merchants anticipate increased payrolls. The community is often divided.

This manufacturer handled the situation intelligently. Townspeople were invited into the city to inspect his plant, see what was made, talk with his employees, learn that the processes were unobjectionable, that the factory people were personable, that good wages were paid for work that could be learned. There was no further opposition.

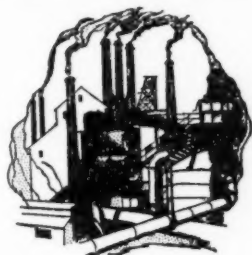
To build or rent was easily settled in his case. He had money to build without hampering his production, not only for land and plant, but for workers' homes. Amortization pays better than renting, because when the plant is written off, he owns it, where if rented, it would be paid for eventually, and the landlord own it. Workers' homes were built for him, to in-

sure good construction and fair prices, and were sold to employees on instalments.

The quality of labor is a very important factor in moving out from older industrial sections of the Los Angeles area. At least, during a period like the present, with its labor shortages, and the use of unskilled workers. Skilled people are hired by aircraft and other high caliber plants, leaving other employers to make the best of what is left. But out in the country there are townspeople capable of acquiring skills, and appreciative of employment that pays better than local industries. This may be a temporary advantage for employers, but around Los Angeles today it is attracting many manufacturers who need skilled or teachable people.

FOR the manufacturers who cannot afford to build, rented quarters are being provided around airports, as well as factories that buy components outside, like aircraft plants. These concerns probably correspond to the empty store enterprise of a generation back. One in so many may grow into a large company. Others could disappear—many are defense suppliers whose market will vanish when the armament program changes. While they pay enough rent in ten or fifteen years to buy their premises, there is no choice.

But renting may be good policy for large corporations with hundreds of branches over the land. Until lately their sales offices, parts warehouses, and services have been together, downtown. But with growth of business it has become necessary to move the warehouses and services out to the



The Terrific Cost of Plant Dispersal

"DISPERSAL looks fairly logical on its face . . . Some writers advocate putting industry underground as well. But there is dangerously loose thinking. If dispersal were to be done even in five or ten years, the cost would be so great as to reduce our standard of living, and the entire economy of the nation would be shattered by losses in real estate values, and industrial plant investments."

fringe. Ownership of branch plants can add up to many millions in real estate for such companies, their market picture can change—it may be advantageous to rent, and keep capital working in production.

Industry is on the march, and where it goes the utilities must build new plant.

Less than five years ago there was a large ranch in sugar beets between Los Angeles and Long Beach. Builders bought 3,500 acres for homes to take care of industrial growth in both cities, and today Lakewood is a super-duper home and shopping center of truly Californian proportions.

Plans call for 17,000 homes, of which 11,000 are now built and occupied, every one with garbage disposal, the only large community without garbage! Bulldozers and construction crews finished a new house every hour, for months, right around the

clock, and every hour there was a new customer for a telephone, electricity, and gas.

Roundabout there are a million and a quarter people who can shop there, and as a shopping center Lakewood is right up to the day after tomorrow. Big markets and big store branches are at the center, with parking for 10,000 cars. According to the drawing power of the retail business for store traffic, these shops are arranged to attract customers to the center, where the magnets are, and thus past the ones that draw lighter traffic. All the delivery services go through tunnels to avoid interference with shopping traffic.

THIS is not a move far out, but it is dispersal prompted by congestion and taxes — definitely T-bomb effect.

There will be a million and a quar-

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ter dollars' new revenue in Lakewood for the Southern California Edison Company—after it has invested about a million in new plant. Household bills averaging \$40 a month will add up to about \$750,000; business load about \$400,000; and more than 500 company-owned street lights, on 150 miles of streets.

APART from the capital investment, Edison forces had to build at a time when there was great activity elsewhere. Right-of-way men from Long Beach were first on the scene, and then followed mains through the new streets to serve homes, underground vaults to serve the shopping center, a new substation, enlarged accounting service—all told, Lakewood took about one-quarter of the company's busy Long Beach organization time, with complications of equipment shortages.

Telephone service in such an area involves more than money to build new plant. That is an acute problem, because rate increases are needed, and delayed by reason of inflation and popular resistance. New equipment is lagging behind the needs of the whole West coast, labor is a problem, and perhaps the biggest problem of all is the increased local rate radius made necessary by such a new community.

At war's end there were fields in crops in the Inglewood area, southwest of Los Angeles. These fields are now the industrial community of West Chester, with 30,000 people, for whom telephones had to be provided during the most difficult part of Pacific Telephone's postwar construction. The base local rate area is now twice its size five years ago.

APR. 24, 1952

This has happened in many other parts of the Los Angeles area.

YESTERDAY there was a popular song about "I'm a goin' to make the San Fernando valley my home." And about 400,000 people have done it. Yesterday the valley was an orange, apricot, and walnut district, with towns like Van Nuys, less than 2,000 phones, one manual exchange. Factories came, among them a Chevrolet assembly plant, 1,600 employees, and today there are 25,000 phones, served through two dial exchanges.

As homes move out from old local rate areas, subscribers want to talk at the local rate, and in many communities the rate areas have been increased one-half—two-thirds, and even doubled. In the southern California area alone, the past six years, Pacific Telephone has installed 2,510,000 phones, taken out 1,846,000, for a gain of 608,000, 58 per cent increase. It has had to find \$1 billion new investment money and around \$230,000,000 for new plant, an 89 per cent increase.

Gas service fortunately does not call for such heavy plant expenditures, as new mains serve a community like Lakewood, and the Southern Counties Gas Company and Southern California Gas Company provided amply for industrial growth when their Texas pipeline was built.

DISPERSAL as a military measure, spreading out our vital defense industries over the nation, so that they will have maximum protection against bombing, has brought warnings from utility executives.

Typical were the views expressed by Chester I. Barnard, chairman of the

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board, New Jersey Bell Telephone Company (PUBLIC UTILITIES FORT-NIGHTLY, May 6, 1948, page 597).

Dispersal looks fairly logical on its face, he said then. Some writers advocate putting industry underground as well. But there is dangerously loose thinking. If dispersal were to be done even in five or ten years, the cost would be so great as to reduce our standard of living, and the entire economy of the nation would be shattered by losses in real estate values, and industrial plant investments. Barnard stated:

"If these large centers were reduced in size by as much as one-third or one-half, it is easy to see that the Bell system could not continue to exist as such. The earning power of existing plant would be reduced so greatly that dividends and even bond interest could not be met. This is not all, because an entirely new system would have to be built and financed to service the new dispersed population and industry. The AT&T alone has more than 700,000 stockholders. As we begin to examine the extent of such decentralization of a few large industries upon the incomes of individuals, banks, insurance companies, educational institutions, it can be seen that the idea falls practically of its own lack of weight. As the dispersion increases, the whole system blows away. . . . All large city governments would be broken up, automatically, in a short time because of decreases in the value of real estate. Here again the effect on the financial stability of the nation would be catastrophic."

Since Mr. Barnard wrote, four years have passed, and dispersal has

become more than a possibility. For military purposes, it has simmered down to new defense plants. Existing plants are not to be picked up bodily and moved into the wilderness, leaving blighted areas in New York, Chicago, Los Angeles. True, in downtown Los Angeles, and for eight to ten miles out, the visitor can today see acres upon acres of real estate cleared more completely than by plant removals, or bombing. But this apparent devastation is growth—clearing for motor freeways, all calculated with a view to maintaining property tax revenues. Motor traffic being what it is, and everywhere, such facilities will be needed.

WHILE freeways are causing some expensive readjustments of utility plant in downtown Los Angeles, such as relocating telephone, electric, and gas mains, and the moving of displaced customers, there is no actual decrease in load. New customers materialize, and want increased service.

Utility executives lie awake nights worrying, not over bond interest, or dividends from depleted plant, but about finding the money to build new plant at staggering increases in cost.

Example: Where between 1937 and 1940 the investment for a new Pacific coast phone was around \$177, today it is more than \$525—and rising. Where to get money of that kind? It can only come from increased rates. Their worry is the lag and the uncertainty in present-day rate hearings.

What the future may hold in the way of military bombing only the future will disclose.

But the T-bomb is already at work.



OUT OF THE MAILBAG

TVA Official Disputes Statements in Keith Article

We feel obliged to call your attention to page 205 of your February 14th issue in connection with the article "Pie in the Sky over Niagara," by George W. Keith.

The footnote refers to legislation for payments in lieu of taxes "drafted along the lines of the TVA arrangement" and goes on to say that "Experiences with such programs have demonstrated that they fall far short of reimbursing state and local governments for the property taxes lost. Such was the conclusion of a disinterested investigation by a task force of the Hoover Commission, which stated that the FPC (1948) fixed 1.4 per cent of the TVA hydroelectric power investment as the amount for payment in lieu of taxes to reimburse state and local governments. TVA in 1947 actually paid \$1,668,000, although the 1.4 per cent figure meant it should have paid about \$7,314,900 to state and local units in lieu of taxes. Nothing for Uncle Sam!"

The fact is that rather than "falling far short" of reimbursing state and local governments for property taxes "lost" the TVA payment of \$1,668,000 in the fiscal year 1947 exceeded by about \$168,000 the former state and local property taxes on all power property acquired by TVA and on all reservoir lands, including those allocated to flood control and navigation as well as power. The payments by TVA plus taxes and tax equivalent payments of municipal and co-operative systems distributing TVA power totaled about \$3,988,000, exceeding by about \$855,000 all the former property taxes on power property and reservoir lands acquired. In the fiscal year 1951, TVA payments of \$2,445,000 were nearly \$850,000 in excess of former taxes and the combined payments of TVA and the distributors were more than \$2,950,000 in excess of former property taxes.

MR. KEITH might have noted the act setting forth the "TVA arrangement," which says (§ 13) "the minimum annual payment to each state shall not be less than an amount equal to the 2-year average of the state and local ad valorem property taxes levied against power property purchased and operated by the corporation in said state and against that por-

tion of reservoir lands related to dams . . . allocated or estimated to be allocable to power."

Mr. Keith is also in error in saying the Federal Power Commission "fixed 1.4 per cent of the TVA hydroelectric power investment as the amount for payment in lieu of taxes" or in saying that the Hoover Commission task force said it did so. The figure of 1.4 per cent does appear in the FPC Administrative Memorandum No. 12 "for staff use only" as "adopted for payment in lieu of property taxes lost as a direct result of construction of the project. *Adjustments in certain areas may be required to meet local conditions.*" (Emphasis added.)

The Hoover Commission task force (A. B. Roberts, consulting engineer, Cleveland, Ohio) did use the 1.4 per cent figure to make a calculation of \$7,314,900 which it (he) thought should have been paid by TVA in lieu of taxes in the fiscal year 1947. This sum would have exceeded former state and local property taxes actually lost by more than \$5,800,000.

In the fiscal year 1947, TVA's power net income was \$21,248,000. Had it been required to pay \$7,314,900 in lieu of taxes, rather than the \$1,668,000 it actually did pay, there would still have remained over \$15,600,000—hardly "nothing for Uncle Sam!" . . .

—PAUL L. EVANS,
*Acting director of information,
Tennessee Valley Authority.*

New York Moving Sidewalks An Old Idea for Chicago

I READ with interest and profit the two articles by George W. Keith, "Moving the Masses of Tomorrow," especially the idea about conveyor belt shuttles at Times Square. It reminded me that moving sidewalks were a feature at the World's Columbian Exposition in Chicago in 1893. Strips moving at three different speeds extended out over the pier over Lake Michigan. I recall this vividly although only a small boy when I attended the fair.

—JEROME SLOCUM,
Chicago, Illinois.

Washington and the Utilities



Investigator Fires Investigator

WITH all the round-robin firing going on in Washington, investigators investigating other investigators, the wags are having a field day playing on such themes as the old popular song, "Who Takes Care of the Caretaker's Daughter?"

But the hirings and firings of investigators and prosecutors were merely the climax to a hectic week in Washington, which will certainly have its impact on public utilities. There was, for example, the unexpected decision of the President to retire from office, which was offset by the stormy departure of Mobilization Director Wilson. The President's refusal to try for re-election is not likely to sidetrack his determination that the Democrats stress the administration's record of public power expansion during the election campaign. In the same speech announcing his retirement, the President hit on this topic several times. As President Truman promised to campaign for the Democratic nominee, "whoever he may be," we may expect plenty of discussion of the public power issue before the election.

The President's repetition of the "power theme" four times in the course of a fairly short speech shows how much his mind is dwelling on the subject these days. The references were not long but they are unmistakable, considering Mr. Truman's well-known pattern of thought regarding the so-called "power issue." First off, he defended against the criticism that he is guilty of encouraging Socialism by building new flood-control dams and supporting other wel-

fare measures. He said of this sarcastically: "Socialism! Socialism is bad for you, my friend. Everybody knows that. And here you are, with your new car, and your home, and better opportunities for the kids, and a television set—just surrounded by Socialism!"

Again he recalled the pre-New Deal attempt to sell Muscle Shoals to private interests. He pointed with pride to his administration's fight to use our "natural resources for the benefit of the public, to develop our forests and public oil reserves and water power for the benefit of all, to raise the incomes of all our citizens, to protect the farmer and worker against the power of monopoly."

And again the President hit on this theme when he said that his party stands for development of "our natural resources for all the people and not just for the favored few."

Departure of Mobilization Director Wilson was another development of a busy week which leaves utilities in a quandary because of their special vulnerability to the impact of inflation. The rapid deterioration of wage stabilization, resulting in imminent steel and telephone-telegraph strike threats, leaves the control machinery in a very shaky condition. More resignations and revisions of basic policies are to be expected.

It has been noted that with all the easing of materials for civilian construction and consumer goods, the third-quarter allocations for public utility industries were little if any more liberal than during the first quarter of the present year. In other words, public utilities are going to

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be kept on short rations for copper, steel, and aluminum, while consumer goods industries will be permitted to function at a near normal pace. Whether this situation will continue after the election is very doubtful regardless of the outcome.

Before the steel and telephone strike threats got ominous, several definite moves to ease controls developed: (1) Announcement by the Defense Production Administration of third-quarter allotments of steel, copper, aluminum, which will allow near normal consumer goods production. Utility industry allotments, however, were not much more liberal than in the second quarter. (2) Steps were taken in Congress to write partial "decontrols" (especially on prices) into the next Defense Production Act. (3) President Truman ordered Mobilization Director Wilson to end credit (anti-inflation) restrictions on public agency bond issues to finance public utility property purchases.

Of course major steel and telephone labor walkouts could end this lull very quickly. A prolonged steel or telephone strike, or both, would sharpen the need for continuing and tightening emergency controls, even while undermining the present Federal control organization.

Snake River Still Frozen

REPRESENTATIVE Yorty (Democrat, California) hit the nail right on the finger when he said during the House Interior Subcommittee hearings on the Hell's Canyon project, "This Congress will not be able to pass a bill which the President will sign." He made that observation after Interior Secretary Chapman had expressed opposition to permitting private power companies to participate in the handling of power if the government builds the gigantic dam on the Snake river in Idaho—unless the private companies, of course, agree to all the conditions of "wheeling contracts," the "preference clause," and "fair rates" as determined by Interior Department contract negotiators.

In other words, the Congressmen with

plenty of things to do before the big conventions meet in July, are not in a frame of mind to be bothered with useless legislation—bills which are certain to be thrown into the waste baskets if they reach the House Interior Affairs Committee.

That being the case, it looks as if the committee will quietly pigeonhole (HR 5743) the bill for the rest of the session and let the next Congress handle the matter. They will have the advantage of permitting members of the present Congress to campaign for re-election without the embarrassment of any recorded votes one way or another.

The unusual feature was the opposition of the Idaho delegation in Congress and Governor Jordan of that state—despite the urging of Congressmen from other states concerning Idaho benefits to be obtained from the expenditure of Federal funds for the project. Governor Jordan testified in favor of private electric company development under a plan calling for several smaller dams, even though the resulting amount of electricity would not be as large. Hell's Canyon would flood out the private company sites.

ALL told, the subcommittee members seemed to be impressed by the Idaho opposition. But somewhat unexpected support for the Hell's Canyon dam came in the testimony by an Army Engineers' witness, who presented an adverse report on the alternative Mountain Sheep dam (which would be built by Army Engineers instead of the Reclamation Bureau). Two California Democratic Representatives, however, Subcommittee Chairman Engle and Yorty, reacted noticeably to opposition's testimony that Reclamation Bureau's Hell's Canyon project is really not a reclamation project at all. It was noted that the bureau's plans make little provision for irrigation because of the amount of water that would be necessary for power production.

The recent passage of the "tidelands" bill recalls another important issue raised at the Hell's Canyon hearings. As to "paramount rights" of the Federal government, Representative Engle suggested

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that it might be illegal for Congress to turn control of the water in the Snake river over to the Federal government in violation of state law as interpreted by Governor Jordan. Jordan also pointed out that the Hell's Canyon project has never been approved by the Columbia Basin Interagency Committee.

The member most sympathetic to the Reclamation Bureau's position was the lady Representative Bosone (Democrat, Utah), whose cross-examination of Governor Jordan indicated her astonishment at Idaho officials failing to be in favor of obtaining financial advantages of Federal projects for their own state. The outlook at the conclusion of the hearings appeared to be that the subcommittee would quietly bottle up the bill for the rest of the session, rather than embarrass members during the coming campaign.

House Passes Civil Functions Army Engineers Bill

A TOTAL of \$221,232,400 in flood-control and power project funds, and \$187,450,000 for river and harbor projects, has passed the House of Representatives. The action accepted without change the Appropriations Committee's report on the annual appropriation measure for civil functions of the Department of the Army. These project appropriations for the Army Engineers contain a number of multipurpose projects which include power development or prospects.

For flood-control projects having power features, funds were approved as follows: *Arkansas*: Blakely Mountain, \$6,000,000; Bull Shoals, \$1,000,000; *California*: Folsom, \$16,000,000; Pine Flat, \$5,500,000; *Georgia*: Clark Hill, \$4,100,000; *Idaho*: Albeni Falls, \$6,000,000; *North Carolina*: John H. Kerr (Philpott) \$6,000,000; *North Dakota*: Garrison, \$30,000,000; *Oklahoma*: Fort Gibson, \$525,000; Tenkiller Ferry, \$2,000,000; *Oregon*: Detroit, \$10,000,000; *South Dakota*: Fort Randall, \$30,000,000; *Oahe*, \$700,000; and *Tennessee*: Dale Hollow, \$1,491,000. Among the rivers and harbor projects: *Florida*: Jim

Woodruff lock and dam, \$11,000,000; *Georgia*: Buford dam, \$3,000,000; *Oregon*: McNary lock and dam, \$60,000,000; *Tennessee*: Old Hickory lock and dam, \$8,000,000; and *Washington* (state): Chief Joseph dam, \$11,500,000.

The committee's action represents a 28 per cent over-all cut in the budget request for rivers and harbors and flood-control projects. The entire bill would appropriate \$408,682,400. The most noteworthy eliminations from the bill involved requests to start new projects. Among these discontinued items were: *Oregon*: The Dalles, —\$37,500,000 requested; *Tennessee*: Cheatham lock and dam, —\$6,000,000; *Washington* (state): Ice Harbor lock and dam, —\$5,000,000; *Nebraska*: Gavins Point, —\$13,000,000; and *South Carolina*: Hartwell dam, —\$4,000,000. The committee rejected Truman's request for funds for new flood-control projects in the Missouri basin, including \$15,500,000 for Tuttle Creek dam on the Blue river in Kansas.

Gas Bill Passes

EARLY Senate action on a bill, urged by the state commissions, to amend the Natural Gas Act, by exempting intrastate distribution from Federal Power Commission jurisdiction seems assured. Following a favorable FPC report, the Senate Interstate Commerce Committee quickly approved the O'Connor-Bricker Bill (S 1084) endorsed by the National Association of Railroad and Utilities Commissioners.

Slightly changed from its original form, the bill now before the Senate declares natural gas operations, physically intrastate or confined to a metropolitan area, to be primarily of local concern and subject only to regulation by the states. To this extent the Supreme Court decision in the East Ohio Gas Company Case (82 PUR NS 1) would be neutralized. Multicompany pipeline pooling operations in the New York city area would also seem to come under the "metropolitan area" exemption, although delivering gas transported from out of the state.



Exchange Calls And Gossip

Microwave Dispute Settled

THANKS to a compromise settlement, the dispute between the Transcontinental Gas Pipe Line Corporation and Southwestern Bell Telephone Company over the refusal of the latter to connect the pipeline company's microwave system to its regular telephone facilities through an office building switchboard has ended. As a result, the provocative opinion, rendered by City Attorney Will Sears of Houston, Texas, may never be tested in the court.

It was almost a year ago that Transcontinental filed a complaint with the public service department of the city of Houston against the Southwestern Bell Telephone Company for failure to provide "certain termination service in connection with Transcontinental's microwave system." A short while after the Humble Oil & Refining Company filed a similar complaint and Clinton Owsley, Houston city director of public service, sought an opinion from the city attorney.

The city attorney last November rendered an opinion in favor of the complainants. Specifically, he found: (1) that microwave is a recently developed form of voice communications using extremely high frequencies which is as satisfactory as (if not even more reliable under some weather conditions than) conventional wire telephone communications services; (2) that the complainant had been refused the connection of its microwave systems constructed along its pipeline routes at the switchboard terminals in its Houston office building; (3) that the question at issue involved a service obligation properly under the "home rule" jurisdiction of the city of Houston; (4) that the telephone company had shown no

valid or lawful reason for refusal to provide terminal service, as it has similarly been holding out to serve PBX (switchboard) customers in the city for many years.

ATTORNEY Sears' opinion took the view that the issue was a matter of local regulation rather than interstate (under the jurisdiction of the Federal Communications Commission), because only the physical connection of local facilities was involved. He cited the decision of the U. S. Circuit Court of Appeals in the Kansas City district exchange case (Southwestern Bell Teleph. Co. v. United States, 46 PUR NS 423), in which the court held that matters of local area regulation were not under the control of the FCC.

While the terms of the settlement were not publicly disclosed, Bell system has traditionally opposed the connection of its regular telephone facilities with other forms of communications facilities not directly under its operating control and service responsibility.

REA Appropriations

THE Rural Electrification Administration's budget requests recently emerged from the House Appropriations Committee practically unscathed except for a reduction in the so-called "contingency funds" for rural telephone loans during the coming year. The House committee recommended \$25,000,000 for new rural telephone loans and an additional \$10,000,000 for contingencies. President Truman had asked for \$25,000,000 for contingency funds.

As reported by the House committee,

EXCHANGE CALLS AND GOSSIP

REA may dip into the contingency fund only if the Secretary of Agriculture certifies that the regular appropriation will be exhausted and there is need for the extra amount. No changes are anticipated in the REA section of the bill as reported to the House. Fifty million dollars was recommended by the committee for rural electrification loans for regular funds covering new rural electric loans, and an additional \$50,000,000 for contingency funds.

The committee shaved \$135,000 from budget requests for administrative purposes, approving \$8,290,000—the same amount REA received for the current year.

Kentucky Rate Cases

TELEPHONE rates charged by the Kentucky Telephone Company from 1947 through 1950 have been upheld by the Kentucky Court of Appeals. The company got a \$215,000 increase in 1947 from the lower court, despite opposition from the cities of Lexington and Midway, and the refusal of the public service commission to authorize the boost. The two cities carried the case to the appellate court, which held that the \$3,800,000 rate base fixed for the company was reasonable at that time and that the company had a right to compute all its expenses and losses for the entire year of 1947, not just the last forty days of 1947.

The Kentucky court also upheld a \$377,000 rate increase for the Citizens Telephone Company, serving northern Kentucky.

In 1949 the company put a phone rate increase of \$640,000 into effect. In 1950 the public service commission gave the company a \$377,000 rate increase in only two of the counties under its jurisdiction and ordered it to restore the former rates in the rural counties. The company appealed, but the appellate court found nothing unlawful about the commission's method of calculation. The court held that it was not necessary for the commission to make a finding under an "abstract theory of utility law."

Strike Stirs Seizure Talk

RUMORS that the government would seize the steel industry in the event of a strike caused early speculation as to whether or not such authority now exists and, if so, if it might not be employed with respect to other industries, notably the telephone-telegraph industry. It is certain that the President has no defense emergency powers to seize and operate the telephone and telegraph systems. Section 606 of the Communications Act, 1934, describing the powers of the President in time of war or national emergency, refers only to radio stations except as to certain priorities of messages in case of trouble.

The 60-odd war powers, which do not include authority to seize and operate transportation and communications during the emergency, will expire upon ratification of the Japanese treaty. Rushed through Congress undebated was a joint resolution extending the President's war powers, including power for the Army to continue operating the railroads. A nation-wide strike in the communications industry might possibly lead Congress to consider special seizure legislation for utilities as well as steel. The continuing act expressly exempts steel seizure, but not public utility seizure.

Microwave Highway Opened

A RADIO-RELAY link between Washington and Charlotte, North Carolina, built by the Long Lines Department of the American Telephone and Telegraph Company to meet the growing need for more telephone circuits into the South, was placed in service on April 2nd. This is the final section of a \$6,000,000 project connecting Washington, Charlotte, and Atlanta. The Charlotte-Atlanta leg was opened for telephone service March 17th and is available for television service.

Between the nation's capital and Charlotte some 100 telephone circuits will be equipped initially to handle the increased long-distance traffic. The new microwave highway, when fully developed, will be able to carry thousands of telephone con-

PUBLIC UTILITIES FORTNIGHTLY

versations, as well as television programs. To transmit the calls between the two cities, nine intermediate radio-relay stations were built, ranging in height from 22 to 290 feet.

The 612-mile system is integrated with the Long Lines nation-wide network of wire, cable, and radio-relay facilities now furnishing communications between the South and the rest of the nation.

With the addition of the completed project, the Bell system's radio-relay network now stretches from Boston south to Atlanta and between the East and West coasts.

"Little Bell" Becomes a "General"

THE names of all major operating subsidiaries of General Telephone Corporation are being changed to include the word "General," it was announced this month. The name changes will affect 12 subsidiary companies serving more than 1,435,000 telephones in over 3,600 communities from coast to coast.

Donald C. Power, president of the parent company, explained that the purpose of the changes was to achieve uniformity and to make General Telephone System better known to the investing public. Mr. Power pointed out that, although the system is one of the nation's larger public utilities, with plant in operation of about a third of a billion dollars, the name "General Telephone" is known to relatively few people other than the parent company's 25,000 present stockholders.

"Our subsidiaries, comprising the largest independent (non-Bell) telephone organization in the United States, operate in 19 states and serve areas with an estimated population of more than 5,500,000," Mr. Power said. "These companies are well known in their respective territories and it is hoped that, by identifying them with General Telephone, this recognition will benefit the system as a whole."

In each case, the change will be made as soon as it is most convenient. The first company scheduled to change its

name is Illinois Commercial Telephone Company, which serves over 600 communities throughout the state. This company will be known as General Telephone Company of Illinois.

OTHER subsidiaries whose names are scheduled to be changed in the immediate future are: Ohio Associated Telephone Company, which will become General Telephone Company of Ohio; Pennsylvania Telephone Corporation, which will become General Telephone Company of Pennsylvania; and Commonwealth Telephone Company, which will be known as General Telephone Company of Wisconsin. The largest subsidiary, Associated Telephone Company, Ltd., which serves close to half a million telephones in southern California, including such cities as Long Beach, Santa Monica, and west Los Angeles, will become General Telephone Company of California.

To avoid confusion, the names of two minor operating subsidiaries, Delaware Valley Telephone Company and Tri-State Associated Telephone Corporation, are not being changed. These companies are located in the same states as two larger subsidiaries; namely, Pennsylvania and New York.

Two other subsidiaries will also retain their present names. They are Leich Electric Company, the system's manufacturing unit with headquarters in Genoa, Illinois, and Leich Sales Corporation. Leich Electric, a pioneer in its field, has been making telephones, switchboards, central office equipment, and other telephone facilities since 1907. Leich Sales Corporation, with headquarters in Chicago, is exclusive sales agent for Leich equipment as well as a distributor of telephone equipment and supplies made by other manufacturers.

At present, the only subsidiaries which include the name "General" are General Telephone Directory Company and General Telephone Service Corporation. The former, with headquarters in Long Beach, California, publishes telephone directories. The Service Corporation furnishes other advisory services at cost.

Financial News and Comment

By OWEN ELY



Natural Gas Retailers Need Rate Adjustment Clauses

As described in this column several months ago, the FPC is now bogged down with applications for increased rates by the natural gas pipelines and wholesale gas distributors. However, these increases can be put into effect "under bond" after a few months' delay. The retail distributors, in turn faced with higher costs, have to go to their state commissions for rate relief; a large number of such cases already are before the commissions or soon will be. But the retailers (except perhaps in a few cases) do not enjoy the permissive device employed by the wholesalers of putting the entire increase into effect under bond. Moreover, some of the state commissions

are very slow to grant relief. Hence the retailers have recently adopted the expedient of asking for partial "temporary" relief, particularly where new financing is planned. Usually this relief, if it comes through on time, is for only part of the requested amount—as was the case recently with Southern California Gas.

What the distributors need is some better mechanism for stabilizing earnings, without the penalty of long regulatory delays. The manufactured gas companies a few years ago went through the ordeal of rapidly rising fuel costs, which heavily depressed their earnings; rate relief was dilatory in many cases, the outstanding example being Brooklyn Union Gas, which reported a deficit in 1947 and encountered severe difficulties with stockholders. As a result of these and earlier troubles, a large number of manufactured gas distributors (particularly those in New England where fuel costs are high) were able to install rate adjustment clauses.

Why aren't the natural gas retailers able to follow the same policy, which would give them almost immediate relief from the rising costs now imposed by producers and wholesalers of natural gas? Presumably the answer is threefold: (1) The protective clauses were lost when the companies shifted from manufactured gas to natural gas; (2) in general, the industry appears to have been caught napping because it had not foreseen such a rapid rise in field costs of gas; and (3) the commissions also

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did not see the need for such clauses, and preferred to have the companies come to them for increased rates, particularly as many companies which made the shift from manufactured to natural gas enjoyed a sharp upturn in earnings.

With reference to the latter fact, however, it should be noted that many manufactured gas companies were formerly earning very low rates of return on the rate base, and even if earnings temporarily moved above the 6 per cent level they should have been permitted to recoup some of the losses of previous years (except to the extent perhaps that these might have been subsidized by high electric rates).

THE relatively few natural gas retailers which have been able to retain their rate adjustment clauses during the transition to natural gas were apparently those which have been using natural gas as a raw material to reform or enrich manufactured gas. These companies (such as Public Service Electric & Gas) are fortunate in retaining protection against the higher rates imposed by the wholesalers. But when they complete their program by converting wholly to natural gas they will apparently lose the protection.

Up-to-date information is not available, but the accompanying table derived from the "Report of Rate Committee"

of the American Gas Association (published in 1951 and containing data as of December 31, 1950), may be of interest. It would seem worth while for the gas companies to make some concerted move to regain the protection afforded by automatic rate adjustment clauses. It is highly essential to protect earning power during this period when construction and financing programs are so important in relation to the defense economy.

Bulletins and Brochures on Utility Stocks

SEVERAL bulletins have been issued recently on *Public Service Electric & Gas*, as the result of an inspection trip over the company's property made recently by a group of bankers and analysts. Argus Research Corporation, New York, summarized the picture as follows: Gas department earnings turned the corner last year as the result of use of natural gas. They should continue to improve in 1952 since the proposed rate increase by Transcontinental Gas Pipe Line will be absorbed by raw material clauses in Public Service gas rate schedules.

Electric earnings will be aided by repeal of the electric energy tax, but as an offset the company is making another

**GAS DISTRIBUTION COMPANIES IN THE UNITED STATES
HAVING RATE ADJUSTMENT CLAUSES***

Region	Natural Gas Cos.		Manufactured, Mixed Gas & LP		All Cos. #	
	Total No.	No. with Clauses	Total No.	No. with Clauses	Total Cos.	No. with Clauses
New England	—	—	77	62	77	62
Middle Atlantic	75	1	68	16	134	17
East North Central	112	10	49	16	146	24
West North Central	95	6	34	8	118	12
South Atlantic	36	2	67	22	102	23
South Central	233	10	12	2	242	12
Mountain States	49	6	11	3	58	8
Pacific Coast	8	5	28	8	33	10
U. S. Totals	589	39	341	135	887	165

*Includes clauses based on cost of gas, competitive fuel prices, taxes, etc.

#Totals do not agree with other columns because some companies operate in more than one state.

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\$1,500,000 cut in electric rates effective April 1st (in addition to the \$5,000,000 cut of last June).

Based on book values, the company last year earned about 6.3 per cent on net plant account (plus net earned assets). Earnings benefited by a reduction of \$520,000 in depreciation accruals. Share earnings last year were \$2.13 on outstanding shares, or \$2.28 on average shares; in 1952 Argus estimates earnings of about \$2.20 on outstanding shares or \$2.30 on average shares. At the recent price around 25 $\frac{1}{4}$ the stock yields 6.2 per cent (no change in the \$1.60 dividend is anticipated) and sells around 11.2 times estimated earnings.

Growth in the area has been aided by the company's aggressive industrial program, as well as by a number of large residential housing projects. Completion of U. S. Steel's new subsidiary near Morrisville, Pennsylvania, is expected to result in location of many new satellite industries in the relatively rural area between Trenton and Camden.

The company's big bus system continues, however, to operate in the red. The commission belatedly authorized a 10-cent fare for one zone and 5 cents for successive zones, but in the meantime costs had continued to rise. Public Service does not consolidate the bus subsidiary in its earnings report, but does so in its tax report, so that earnings as reported to stockholders are probably actually larger (through the tax saving) due to the bus deficit.

PLANNED construction work in 1952 will approximate \$84,000,000 compared with \$62,000,000 last year and \$37,000,000 in 1950. It is estimated that the company may sell some \$42,000,000 debentures and \$18,000,000 of common stock later in the year.

Truslow Hyde, partner of Josephthal & Company, New York, in his comments on the trip stated:

The growth of Public Service is not as big on a percentage basis as that experienced by some companies with small beginnings, but is equally large

in relation to the outstanding stock which is the important measurement. In fact, the smaller percentage growth is a distinct advantage as it can be more economically absorbed with less financial burden on the company. . . .

During the past few years the company has been going through a period of readjustment which should greatly strengthen its position with respect to regulations. There is no question that the electric department had been earning an excessive return for many years in order to offset inadequate earnings of the gas division. With the introduction of natural gas last year, however, the gas division realized earnings of \$4,500,000 compared with only \$200,000 in 1950. Although this still represents an inadequate return, prospects for further improvement appear favorable, and I believe that the company should be able to develop earnings of \$2.50 a share. While this might justify an increase in the present \$1.60 dividend rate, conversation with the management leads me to believe that such action is not imminent. . . . I per-

*UTILITY NEW MONEY FINANCING 1952 (In Millions)

			First Quar- ter
		First Quar- ter	% In- crease Over
	March	1952	1951
<i>Electric Utilities</i>			
Bonds	\$216	\$328	22%
Preferred ..	36	61	50%
Common ...	34	73	D41%
	<u>\$286</u>	<u>\$462</u>	<u>17%</u>
<i>Gas Utilities</i>			
Bonds	\$ 56	\$120	20%
Preferred ..	19	19	217%
Common ...	14	16	23%
	<u>\$ 89</u>	<u>\$155</u>	<u>35%</u>
Total Electric and Gas ..	\$375	\$617	21%

*As compiled by the Irving Trust Company.

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sonally prefer the \$1.40 preference stock which is convertible into the common on a share-for-share basis and yields 5.25 per cent at current levels of 26½.

KERR & COMPANY, engineers of Los Angeles, Chicago, and New York, have recently issued a 4-page brochure

on *Detroit Edison*. They point out that despite unemployment in the area last year, due to the conversion of industry to rearmament production, Detroit Edison's electric sales increased by 10 per cent and revenues advanced 9 per cent over 1950. As a result of 1951 financing, the working capital position is strong and no new funds should be needed for this



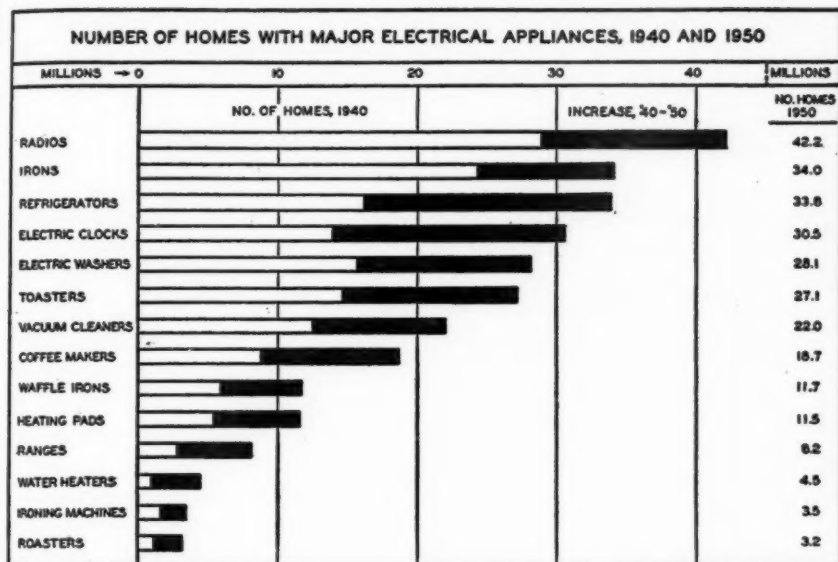
LIST OF NEW YORK BROKERS' UTILITY ANALYSES*

<i>Company Analyses</i>	<i>Firm</i>	<i>No. Pages</i>	<i>Issued</i>
American & Foreign Power	L. F. Rothschild & Co.	3	Jan.
American & Foreign Power	Kalb, Voorhis & Co.**	—	Jan.
American Power & Light	Kidder, Peabody & Co.	6	Mar.
Central Illinois Public Service	Paine, Webber, Jackson & Curtis ..	2	Feb.
Cleveland Elec. Illuminating	Paine, Webber, Jackson & Curtis ..	2	Mar.
Consolidated Gas of Baltimore	Paine, Webber, Jackson & Curtis ..	3	Mar.
Detroit Edison	Kerr & Co.	4	Mar.
Eastern Gas & Fuel	J. Arthur Warner & Co.	1	Feb.
El Paso Electric	Paine, Webber, Jackson & Curtis ..	2	Feb.
Florida Power & Light	Paine, Webber, Jackson & Curtis ..	3	Jan.
General Public Utilities	Argus Research Corporation	2	Feb.
General Public Utilities	Thomson & McKinnon	4	Feb.
Elec. Bond and Share	Goodbody & Co.	5	Mar.
Houston Lighting & Power	Paine, Webber, Jackson & Curtis ..	2	Mar.
Idaho Power	Paine, Webber, Jackson & Curtis ..	3	Jan.
International Tel. & Tel.	Kerr & Co.	4	Mar.
Kansas-Nebraska Natural Gas	Kerr & Co.	4	Mar.
Long Island Lighting	Argus Research Corporation	4	Feb.
Michigan Gas Utilities	J. G. White & Company	2	Mar.
Middle South Utilities	Argus Research Corporation	2	Jan.
Minnesota Power & Light	Paine, Webber, Jackson & Curtis ..	3	Feb.
Montana Power Co.	Paine, Webber, Jackson & Curtis ..	3	Jan.
Montana Power Co.	Kidder, Peabody & Co.	6	Jan.
New England Electric	W. C. Langley & Co.	3	Jan.
Pacific Gas and Electric	Sutro Bros. & Co.	1	Jan.
Philadelphia Electric	Argus Research Corporation	2	Mar.
Public Service Electric & Gas	Paine, Webber, Jackson & Curtis ..	2	Mar.
Public Service Electric & Gas	Argus Research Corporation	2	Mar.
Public Service Electric & Gas	Josephthal & Co.	2	Mar.
Southern California Edison	Kerr & Co.	4	Mar.
Southwest Gas Production Co.	Blair, Rollins & Co.	—	Jan.
Standard Gas & Electric	Ira Haupt & Co.	1	Jan.
Standard Gas & Electric	Sutro Bros. & Co.	2	Mar.
Standard Power & Light	Ira Haupt & Co.	2	Feb.
Texas Utilities	Paine, Webber, Jackson & Curtis ..	2	Feb.
Washington Water Power	Kidder, Peabody & Co.	6	Mar.
<i>Bulletins and Tables</i>			
Monthly Review of Utility Developments	Josephthal & Co.	4	Mar.
Current Developments in Utilities ..	Eastman, Dillon & Co.	10	Apr.
Electric Utility Industry	Van Strum & Towne	19	Dec.
Utility Stock Analyzer—Tabulation of Electric Utilities	Geyer & Co.	2	Mar.
Tabulation of 112 Electric and Gas Stocks and Review	White, Weld & Co.	8	Feb.

*Similar lists have appeared in the FORTNIGHTLY for January 31, 1952, and in 1951 in the November 22nd, August 2nd, April 26th, and January 4th issues.

**\$2 a copy.

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The Cleveland Trust Company

year's expansion program. Two 100,000-kilowatt generators were placed in service last year; a new 125,000-kilowatt unit is scheduled for service in May, 1953, two more later that year, and a fourth about July, 1954. Detroit Edison, in collaboration with Dow Chemical Company, is one of the four industrial groups authorized by the Atomic Energy Commission to study the application of nuclear power for industrial purposes.

ANOTHER recent Kerr brochure describes the ramified world-wide operations of International Telephone & Telegraph Company and its subsidiaries. The system has become the largest foreign producer of telephone equipment, remains an important factor in world telephone and radio communication systems (despite sale of some of its foreign interests), and is becoming increasingly important in the domestic field of electronics, including television, radio, and telephone equipment. While the company has some properties behind the "Iron Curtain," the total values involved are not very large and reserves for anti-

pated war losses have been set up. Investment analysts have sometimes wondered about the nature of the assets in foreign countries and whether or not the book value of \$44.82 per share was conservative, but correspondents of Kerr & Company in England and France who have seen the company's factories report that the plants are impressive.

THE report concludes: "Although IT&T has world-wide interests, 79.5 per cent of the company's investments are located in England and in North and South America. Assets are distributed about two-thirds in manufacturing plants and miscellaneous properties and one-third in telephone and radio-telephone utilities.

"Profits from foreign and domestic manufacturing subsidiaries exceeded telephone profits for the first time in 1944, and are now the major earnings determinant."

The report also estimates 1951 earnings at \$2.50 per share and for 1952 at \$3, with the suggestion that future years may show even a higher average.

PUBLIC UTILITIES FORTNIGHTLY

Unclaimed Reorganization Cash And Securities

THE SEC recently issued a pamphlet entitled "Securities Required to Be Exchanged for Cash or New Securities," resulting from liquidation or reorganization plans consummated under the Utility Holding Company Act and the Bankruptcy Act. The report lists about two hundred securities which should be redeemed or exchanged for cash or new securities, in many cases before a specified date, after which time the exchanges can no longer be made and the old securities will become worthless. The Commission estimates that funds now available and awaiting presentation of old securities amount to some \$25,000,000.

"Publication of the list," Chairman Cook stated, "represents an attempt on the part of the commission to help investors realize every last dollar to which they are entitled in these corporate reorganizations. . . . Our experience in the recent Associated Gas & Electric Case offers a striking example of what happens when investors 'sleep' on their rights. The Associated reorganization plan initially provided five years within which securities entitled to participate could be exchanged for new securities. Toward the end of this period, securities valued at over \$7,000,000 remained unclaimed despite persistent efforts on the part of the commission, the reorganization court, and the reorganized company to locate investors entitled thereto. An extension

of the period for exchanges was obtained and extraordinary measures were then invoked, which resulted in further tenders in exchange for an additional \$4,500,000 of the new securities which otherwise would have been lost to the Associated security holders. We hope by the publication of this list of securities to secure proportionately good results in those cases also."

The commission is distributing 30,000 copies of the report to banks, trust companies, brokers, dealers, and investment advisers.

Joint Accounting Meeting

ABOUT 1,200 utility accounting executives attended the joint American Gas Association-Edison Electric Institute accounting conference April 7th to 9th, at the Hotel Commodore, New York city.

There was a general afternoon session on April 7th of utility representatives who were addressed by industry leaders. Tuesday, April 8th, and Wednesday, April 9th, were devoted to committee meetings at which specialized subjects were discussed in detail.

Speakers on Monday afternoon included Kinsey M. Robinson, president of the Washington Water Power Company, who spoke on "Opportunities for Accountants in Public Relations"; Allan H. Mogenson, industrial consultant, whose subject was "Work Simplification"; and Charles E. Oakes, president

CURRENT YIELD YARDSTICKS

	Recent	1952 Range		1951 Range	
		High	Low	High	Low
U. S. Long-term Bonds—Taxable	2.68%	2.75%	2.63%	2.74%	2.39%
Utility Bonds—Aaa	2.98	3.08	2.93	3.09	2.64
—Aa	3.03	3.11	2.99	3.18	2.70
—A	3.25	3.31	3.22	3.32	2.82
—Baa	3.53	3.58	3.53	3.58	3.21
Utility Preferred Stocks—High-grade	4.03	4.24	4.03	4.25	3.77
—Medium-grade ..	4.47	4.71	4.47	4.71	4.19
Utility Common Stocks	5.28	5.51	5.26	6.11	5.53

Latest available Moody indices are used for utility bonds and preferred stocks; Standard & Poor's indices for government bonds and utility common stocks.

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of Pennsylvania Power & Light Company, who discussed "Competitions Affecting Industry, Productive and Destructive." O. K. Boyd, Consolidated

Gas Electric Light & Power Company of Baltimore, and E. R. Eberle, Public Service Electric & Gas also were scheduled to speak.



CURRENT UTILITY STATISTICS AND RATIOS

	Unit Cost	Latest Month	Latest 12 Mos.	Per Cent Latest Month	Increase Latest 12 Mos.
Operating Statistics (February)					
Output KWH—Total	Bill. KWH	31.5	376.3	12%	12%
Hydro-generated ..	"	9.5	—	15	—
Steam-generated ..	"	22.0	—	8	—
Capacity	Mill. KW	76.0	—	10	—
Peak Load (November)	"	65.9	—	11	—
Fuel Use: Coal	Mill. Tons	8.7	—	2	—
Gas	Mill. MCF	54.8	—	35	—
Oil	Mill. Bbls.	4.8	—	D14	—
Coal Stocks	Mill. Tons	37.7	—	24	—
Customers, Sales, Revenues, and Plant (January)					
KWH Sales—Residential	Bill. KWH	6.1	57	13%	13%
Commercial	"	4.0	44	8	12
Industrial	"	11.6	134	7	13
Total, Incl. Misc. ..	"	28.7	314	7	10
Customers—Residential	Mill.	30.0	—	4	—
Commercial	"	4.3	—	1	—
Industrial	"	.5	—	3	—
Total	"	37.0	—	4	—
Income Account—Summary (January)					
Revenues—Residential	Mill. \$	166	1,654	10%	11%
Commercial	"	109	1,213	7	9
Industrial	"	128	1,491	8	10
Total, Inc. Misc. Sales ..	"	440	4,806	8	10
Sales to Other Utilities ..	"	36	398	3	3
Misc. Income	"	25	216	18	7
Expenditures					
Fuel	"	79	865	8%	13%
Labor	"	90	1,015	6	9
Misc. Expenses	"	66	785	1	1
Depreciation	"	42	475	8	9
Taxes	"	111	1,147	11	20
Interest	"	24	282	9	8
Amortization, etc.	"	2	24	D20	22
Net Income	"	87	828	14	1
Preferred Div. (Est.)	"	10	118	5	6
Bal. for Common Stock (Est.)	"	77	70	17	1
Common Dividends (Est.)	"	50	543	13	9
Balance to Surplus (Est.)	"	27	167	69	6
Electric Utility Plant (January)					
Reserve for Deprec. and Amort.	"	\$20,828	—	9%	—
Net Electric Utility Plant	"	4,223	—	8	—
	"	16,605	—	10	—
Life Insurance Investments (January 1st-March 22nd)					
Utility Bonds	"	—	138	—	D16%
Utility Stocks	"	—	19	—	51
Total	"	—	157	—	D11
% of All Investments	"	—	7%	—	—

PUBLIC UTILITIES FORTNIGHTLY

RECENT FINANCIAL DATA ON GAS COMPANY STOCKS

1950 Rev. (Mill.)			4/2/52 Price About	Indi- cated Divi- dend Rate	Approx. Yield	-12 Mos. Share Earnings#- Current Period	% In- crease Of Re- ports**	Freq.	Price- Earn. Ratio	Div. Pay- out
Producers and Pipelines										
\$ 7	O	Commonwealth Gas	24	\$.25	1.0%	\$.74dx	19%	a	—	20
23	S	Mississippi Riv. Fuel ...	36	2.20	6.1	3.29dx	10	qy	10.9	67
—	O	Missouri-Kans. P. L. ...	68	1.60	2.4	1.66dx	D62	a	—	96
37	S	Southern Nat. Gas	48	2.50	5.2	4.34d	25	qy	13.4	58
53	O	Tenn. Gas Trans.	29	1.40	4.8	1.63d	—	qy	17.8	86
74	O	Texas East. Trans.	19	1.00	5.3	1.76d	D2	a	10.8	57
31	O	Texas Gas Trans.	18	1.00	5.6	1.84d	D6	a	9.8	—
		Averages			4.2%				12.5	
Integrated Companies										
81	S	American Natural Gas ..	33	\$1.80	5.5%	\$2.58d	16%	bq	12.8	70
160	S	Columbia Gas System ..	16	.90	5.6	1.06d	D2	qy	15.1	85
7	C	Consol. Gas Utilities	14	.75	5.4	1.73j	15	qy	8.1	43
135	S	Consol. Nat. Gas	60	2.50	4.2	5.67d	13	qy	10.6	44
39	S	El Paso Nat. Gas	37	1.60	4.3	3.14d	79	my	11.8	51
26	S	Equitable Gas	21	1.30	6.2	1.84d	D8	bq	11.4	71
13	O	Interstate Nat. Gas	40	2.50	6.3	3.25dx	30	a	12.3	77
8	O	Kansas-Neb. Nat. Gas ..	24	1.24	5.2	2.11d	36	qc	11.4	59
52	C	Lone Star Gas	26	1.40	5.4	1.76d	D15	mqy	14.8	80
15	S	Montana-Dakota Utils. .	25	.90	3.6	.73d	D35	qy	—	123
9	O	Mountain Fuel Supply ..	20	.70	3.5	1.15d	16	a	17.4	61
36	C	National Fuel Gas	14	.80	5.7	1.19d	D3	bq	11.6	67
3	O	National Gas & Oil	9	.40	4.4	.91d	D12	a	9.9	44
33	S	Northern Nat. Gas	44	1.80	4.1	1.68d	D21	qy	—	107
22	C	Oklahoma Nat. Gas	36	2.00	5.6	2.61j	D14	b	13.8	77
16	C	Pacific Pub. Serv.	16	1.00	6.3	1.47d	D34	qc	10.9	68
41	S	Panhandle East. P. L. .	77	2.00	2.6	3.03d	14	qy	—	66
86	S	Peoples Gas Lt. & Coke .	134	6.00	4.5	9.16d	D9	qy	14.6	66
14	O	Southern Union Gas	21	.80	3.8	1.51dx	13	qc	13.9	53
107	S	United Gas	27	1.00	3.7	1.56d	9	qy	17.2	64
		Averages			4.8%				12.8	
Retail Distributors										
21	O	Atlanta Gas Light	22	\$1.20	5.5%	\$1.81d	D3%	bq	12.2	66
4	C	Bridgeport Gas	24	1.40	5.8	1.47dx	D22	a	16.3	95
2	O	Brockton Gas Lt.	10	.56	5.6	.32d	D45	a	—	175
42	S	Brooklyn Union Gas	53	3.30	6.2	4.48d	24	qc	11.8	74
18	O	Central El. & Gas	12	.80	6.7	1.07j	2	qy	11.2	75
5	O	Hartford Gas	37	2.00	5.4	2.39d	D11	a	15.5	84
1	O	Haverhill Gas Lt.	34	1.80	5.3	2.18f	5	my	15.6	83
7	O	Houston Nat. Gas	19	.80	4.2	1.49ju	41	a	12.8	54
8	O	Indiana Gas & Water ...	24	1.40	5.8	2.07f	5	c	11.6	68
1	O	Jacksonville Gas	33	1.40	4.2	4.97dx	4	a	6.6	28
5	C	Kings County Ltg.	94	.40	4.2	.85d	89	qc	11.2	47
21	S	Laclede Gas	8	.50	6.3	.84f	D2	b	9.5	60
16	O	Minneapolis Gas	20	1.10	5.5	1.19d	—	qy	16.8	92
5	O	Mobile Gas Service	30	1.60	5.3	3.05d	D11	bq	9.8	52
5	O	New Haven Gas Lt.	27	1.60	5.9	1.92dx	13	a	14.1	83
115	S	Pacific Lighting	52	3.00	5.8	3.36d	D34	bq	15.5	89
10	O	Portland Gas-Coke	17	.80	4.7	1.67d	11	bq	10.2	48
6	O	Providence Gas	9	.40	4.4	.36d	D37	a	25.0	111
2	C	Rio Grande Valley Gas .	2	.12	6.0	.19d	—	qy	10.5	63
1	O	Rockland Gas	39	1.70	4.4	4.72d	2	a	8.3	36
5	O	Seattle Gas	15	.60	4.0	1.37d	—	qy	10.9	44
4	O	Springfield Gas Light ...	33	1.60	4.8	1.64dx	—	—	20.1	98
22	S	United Gas Improv.	34	1.55	4.6	1.99d	D3	qy	17.1	78
23	S	Wash. Gas Light	31	1.50	4.8	2.54d	7	bq	12.2	59
		Averages			5.1%				13.0	
Canadian										
—	S	International Utilities ...	28	\$1.20	4.3%	\$1.80d	20%	mqy	15.6	67
APR. 24, 1952 576										

APR. 24, 1952

576

1950
Rev.
(Mill.)

\$3,261

26

92

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FINANCIAL NEWS AND COMMENT

RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER COMPANIES

1950 Rev. (Mill.)		4/2/52 Price About	Indi- cated Divi- dend Rate	Approx. Yield	-12 Mos. Share Earnings#- Current Period	% In- crease* Of Re- ports**	Freq. Of Re- ports**	Price- Earn. Ratio	Div. Pay- out
Communications Companies									
<i>Bell System</i>									
\$3,261	S	Am. Tel. & Tel. (Cons.)	155	\$9.00	5.8%	\$11.00d	5%	mcy	14.1 82
26	O	Cinn. & Sub. Bell Tel. ..	74	4.50	6.1	4.56d	D1	qc	16.2 99
92	C	Mountain Sts. T. & T. ..	100	6.00	6.0	5.76d	D20	qy	17.4 104
191	C	New England Tel.	109	8.00	7.3	6.99	D14	qy	15.6 114
431	S	Pacific Tel. & Tel.	111	7.00	6.3	7.14d	D5	qy	15.5 98
55	O	So. New Eng. Tel.	35	1.80	5.1	1.88d	D11	qc	18.6 96
		Averages			6.1%				16.2
<i>Independents</i>									
7	O	Central Telephone	12	\$.80	6.7%	\$1.22d	7%	qy	9.8 66
70	S	General Telephone	30	2.00	6.7	2.64d	53	qy	11.4 76
9	C	Peninsular Tel.	42	2.50	6.0	3.59d	D10	c	11.7 70
12	O	Rochester Tel.	13	.80	6.2	1.25d	D18	qc	10.4 64
<i>Transit Companies</i>									
7	O	Chicago SS. & S. B.	11	\$1.00	9.1%	\$1.58d	D5%	qc	7.0 63
8	O	Chicago So. Sh. & M. ..	5	—	—	.46dx	—	a	10.9 —
9	O	Dallas Ry. & Term.	13	1.40	10.8	2.46d	40	a	5.3 57
184	S	Greyhound Corp.	11	1.00	9.1	1.27d	2	qy	8.7 79
22	O	Los Angeles Transit	5	.50	10.0	.51dx	D39	qc	9.8 98
29	S	Nat. City Lines	10	1.00	10.0	1.91d	—	qc	5.2 52
66	O	Phila. Transit	6	.80	13.3	1.32d	—	qc	4.5 61
25	O	St. Louis P. S. A.	9	.50	5.6	.35d	D15	qc	— 143
4	O	Syracuse Transit	20	2.00	10.0	1.75d	D40	a	11.6 116
23	O	United Transit	3	—	—	.42d	D38	qc	7.1 —
		Averages			9.2%				7.8
<i>Water Companies</i>									
<i>Holding Companies</i>									
26	S	Amer. Water Works	9	\$.50	5.6%	\$.77d	D24%	qy	11.7 65
4	O	N. Y. Water Service ...	36	.80	2.2	1.92s	18	qy	18.8 42
<i>Operating Companies</i>									
3	O	Bridgeport Hydraulic ..	29	\$1.60	5.5%	\$1.74d	20%	a	16.7 92
7	O	Calif. Water Serv.	30	2.00	6.7	2.83f	26	b	10.6 71
1	O	Elizabethtown Water ...	85	6.00	7.0	6.96dx	D17	a	12.2 86
6	S	Hackensack Water	31	1.70	5.5	2.56d	D6	qc	12.1 66
3	O	Jamaica Water Supply ..	24	1.50	6.3	2.09s	19	qy	11.5 72
2	O	New Haven Water	55	3.00	5.5	2.91d	D10	a	18.9 103
1	O	Ohio Water Service	22	1.50	6.8	1.91d	D3	bq	11.5 79
4	O	Phila. & Sub. Water	42	.80	1.9	3.06dx	D12	a	13.7 26
1	O	Plainfield Union Wt. ...	49	3.00	6.1	4.16dx	D18	q	11.8 72
2	O	San Jose Water	33	2.00	6.1	2.47d	D13	b	13.4 81
6	O	Scranton-Spring Brook .	14	.90	6.4	.94s	D18	qy	14.9 96
3	O	Southern Cal. Water ...	9	.65	7.2	.83d	8	qy	10.8 79
1	O	Stamford Water	48	2.00	4.2	1.81d	D14	a	— 95
2	O	West Va. Wt. Service ..	27	1.20	4.4	1.37s	12	bq	19.7 88
		Averages			5.7%				13.7

D—Deficit. C—Curb exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. *Increasing in balance for common stock. #Earnings are calculated on present number of shares outstanding, except as otherwise indicated. PF—*Pro forma*. dx—December, 1950. ju—July. s—September. o—October. n—November. d—December, 1951. j—January, 1952. f—February, 1952. NC—Not comparable. **The following symbols are used in this column to indicate the periods and frequency of earnings reports: a—Calendar year only. b—Twelve months only (reported monthly). bq—Twelve months only (reported quarterly). c—Cumulative months and twelve months. mc—Latest month and cumulative months. mcy—Latest month, cumulative months, and twelve months. q—Latest quarter only. qc—Quarters cumulatively. qy—Latest quarter plus last twelve months.



What Others Think

A Plan for Easing Inflationary Pains For Utility Depreciation



THERE are two steps in the process of determining a public utility's depreciation expense, for property devoted to the use of the public: (1) the estimation of the whole "service life," as well as the annual "use" quota of that total, and (2) what this means in dollars and cents. The first step is easy, in a theoretical sort of way—something like those age-life tables that insurance companies compile on the basis of actuarial experience. The second is not so easy, especially during a period when dollar values are fluctuating madly, as during the inflation of the past few years.

Stating the change in original dollars invested, which is the prevailing regulatory custom, leaves quite a gap between capital restored and replacement investment necessary. The utility must scramble for the extra capital while the customers are faced with an abrupt bulge in the original cost rate base, after the replacement at inflated prices has been made.

On the other hand, stating the change in terms of the replacement value goes back to all the old uncertainties which invoked the curse of regulatory anathema from latter-day Federal regulationists, for anything that smacks of reproduction cost value.

George B. Tully, of the economics department of the University of Wisconsin, writing in the current (February, 1952) issue of *Land Economics*, comes up with an interesting alternative:

Why should not the process be carried one step further? Why should not the annual depreciation expense be allowed in terms of current dollars? What this would mean in terms of regulatory practice would be the following: When there has been a sig-

nificant change in the price level from the year considered as the base year, the commission would allow the depreciation expense to be changed in the same ratio. In a period of rising prices, this would result in the payment by customers of an amount in excess of that necessary to liquidate the dollar investment of security holders, but not the physical investment. This would be in reality a contribution by the customers to the maintenance of the physical capital of the utility; for this reason the excess amount should be set aside in a reserve for price changes.

Thus, two accounts would be necessary: a price adjustment account and a special reserve account. The first would appear as an expense account and the second would appear as a deduction from the plant valuation along with the normal depreciation reserve. For tax purposes, this would not be a deductible expense; since, under the present law, depreciation is based on original investment, unadjusted. To give the utility companies the full benefit of the adjustment in their depreciation expense, it would be necessary to increase the amount of the adjustment by a sum to cover the tax also. Such an increase has not been made in the illustration in the text. The inclusion of the increase would not have changed the conclusions substantially; it would have moved the point at which the cumulative total payments were equal to a later date.

DR. TULLY pointed out that, in order to disturb normal operations in the industry as little as possible, commission policies should be constant over as long a period as possible. Hence, it is pertinent to inquire: Would there be any advan-

WHAT OTHERS THINK

tages in making this adjustment as a permanent policy? Specifically, what difference would it make to the customers? the management? the investors? Also, it is necessary to establish as far as possible whether the policy would have desirable effects in connection with different types of price movements; namely, with a permanent change from one level to a higher level, or with a temporary movement upward and then back to the original level, or with an inflation-depression cycle.

To answer these questions, Tully follows a hypothetical utility through a series of price movements, noting the difference between the use of an unadjusted original cost method and this proposed adjusted original cost method. Using simple rounded figures for original cost plant for the depreciation reserve, and for the difference between both (rate base), Tully's article in *Land Economics* projects his illustration (both tables and graphs) to reflect the following price changes: (1) a 100 per cent price rise in twenty years, (2) 100 per cent in ten years, followed by a relatively constant period, and (3) various cyclical variations.

One must read the excellent presentation in the original *Land Economics* article to get the real flavor of Tully's hypothesis, but his description of the suggested results are as follows:

Combining the depreciation expense with payments for a return on original investment into total customer payments, we find that the adjustment produces higher initial total payments and lower ultimate total payments when prices rise to a higher permanent level. And when we consider the other price conditions, we find that eventual declines in the index of prices even to a depression level of 40 and back are not

sufficient to overcome the initial effects of a price increase to 200.

In the long run, then, it is apparent that the effect of the adjustment of the depreciation expense to the current level of prices is to reduce the total amount which the customers will have to pay. There are some other reasons why this procedure of recognizing price changes is desirable. One reason has to do with the timing of the payments by the customers: There will be a fluctuation of utility rates to the extent that these payments are reflected in rates which will correspond relatively closely with the periods of prosperity and depression and with the ability of customers to pay the rates. There will be a lag for two reasons: First, there should be no adjustments except for price changes which have actually occurred; and second, it will be within the province of the commissions to indicate when the price changes have been of sufficient importance to make an adjustment desirable.

Two other desirable results mentioned are: (1) better opportunity for management to plan plant maintenance, with relation to financing; (2) prevention of a dilution in the investor's equity by avoiding the need of issuing more securities. Tully notes, however, that "The adjustment is proposed in the form of an adjustment of the depreciation expense because of the writer's conviction that the plant accounts of a utility should reflect the original cost of the property and equipment. The adjustment is in the expense and not an increase in valuation." He also warns that the proposed modification should only be considered on a two-way basis—to be continued in the event of a price reversal.

—F. X. W.

Iowa Attacks National Water Policies

POSSIBLE nationalization of the electric industry and loss of state sovereignty are among the dangers foreseen by the Iowa Development Commission in the

proposals of the President's Water Resources Policy Commission.

The Development Commission, an official state agency to foster and promote the

PUBLIC UTILITIES FORTNIGHTLY



"YOU CUT ME OFF JUST WHEN HE STARTED TO MAKE A DATE FOR TONIGHT
—NOW WHAT AM I GOING TO DO?"

economic welfare of Iowa, is composed of business and industrial leaders of the state.

The Iowa agency viewed the proposal for "construction of steam-electric generating plants to firm up the hydro plants built under the guise of flood control" as "another step toward the nationalization of one of our basic industries."

The statement also said in part:

We believe that the recommendations strike an indirect blow at our private enterprise system. Already several government agencies are in the power business, with plant investment and operating capital provided by the taxpayers and much of their costs charged off for purposes other than generation costs.

The commission termed this situation "foreign and alarming" and said "we emphatically reject" these suggestions which, it said, had been found in the report of the President's committee:

That the country be divided into river basins and that the economy and development of natural resources in each basin should be planned and administered by a small group of men answerable only to the President of the United States; that social objectives should be the ultimate aim; that intangible values be the determining factors in estimating the feasibility of the projects, and that preference customers be given first benefits from tax-built hydroelectric projects,

WHAT OTHERS THINK

OF Iowa, the commission said that a state such as Iowa, which has two major rivers on its borders, "could conceivably be deprived of its inherent sov-

ereignty in so far as the water use and conservation is concerned by two separate Federal bodies set up to administer these two great river basins."

"A Rose by Any Other Name"

REPRESENTATIVE William E. Miller, Republican Congressman from New York, believes that it is time for the government to drop the double talk surrounding each of its ventures into the field of electric power, beginning with TVA, and to call a spade a spade. Miller had reference to recent speeches by Interior Secretary Chapman and President Truman explaining the basis of the government's power policy—that power produced with the people's money ought to be used for the benefit of the people and not for the benefit of the private power companies, and that multiple river basin programs, including the development of hydroelectric power, assures widespread use of this power by preventing private companies from monopolizing it. Miller commented:

... if what President Truman and Secretary Chapman really mean is that they believe in using the people's money for business purposes and returning the people's money to them in the form of products and services, why don't they say so because then, while I would still violently disagree with them, at least those who believe in the merits of Socialism would clearly understand that they have two excellent champions in Mr. Truman and Mr. Chapman.

Reviewing the development of TVA from a navigation, flood-control, national defense project, to "the greatest power monopoly on the face of the earth," the Republican Congressman charged that the government, "encouraged by nearly twenty years of Federal power monopolies," is now claiming a constitutional right to do at Niagara Falls what it never had a constitutional right to do in the Tennessee valley. He continued:

... what they succeeded in doing through the back door and by hypocrisy in the case of TVA, they now openly claim they have the constitutional right to do at Niagara Falls where they know that even they could not fool the people of the United States into believing that it was anything but a power project, because even they have never contended at any time that the Niagara question involved any propositions concerning navigation, irrigation, reclamation, flood control, or any other accepted governmental sphere of activity.

IF it could be proved that these projects, even though unconstitutional and socialistic, directly benefit the people, Miller contended, few voices would be raised against them. Unfortunately, he continued, the record of TVA activity merely proves what always happens when the government enters fields rightfully belonging to private enterprise. Miller pointed out that though TVA claims to sell vast sums of power economically and efficiently, it has received appropriations annually amounting to \$1,260,000,000, including fiscal 1952. He estimated that \$456,000,000 has gone to the power program, and that only one-fifteenth of all the taxpayers' money appropriated has been returned to the Treasury, "yet annually this authority continues to ask for appropriations five or six times the total amount it has repaid in nineteen years."

Miller emphasized that Federal projects of this sort pay no taxes or make only small payments in lieu of taxes, amounting to one-tenth of the taxes which would be paid "if the same formula were applied to the Tennessee Valley Authority as is applied to the Niagara

PUBLIC UTILITIES FORTNIGHTLY

Mohawk Power Company, which presently develops the power on the Niagara river." He stated:

... once the government has its foot in the door and its nose under the tent, it will, just as surely as there is a God in heaven, be back to Congress every year for annual subsidies to support the project and, just as surely, the power project will pay no interest to the people for the use of the people's money and ... history proves that people will be repaid only a small proportion, if any, of the money received from them. So, of course, the people will have to make up this expenditure through increased taxation.

CORRUPTION, said Congressman Miller, "has always been the resulting consequence" of a governmental bureaucracy. He referred to recent disclosures by the Washington, D. C., *Times-Herald* and the *Chicago Tribune* involving TVA contracts with companies representing themselves as coal producers. He pointed to the granting of a \$37,000,000 contract to a 3-day-old corporation with a paid-in capital of only \$10,000; a contract awarded to another \$10,000 corporation which promised the output of a strip mine that was closed and had no machinery, granted at a price higher than that quoted to TVA by a large responsible company; the success of a roadside honky-tonk operator and two partners, previously unknown in the coal industry, in obtaining a contract for \$1,257,120 worth of coal; and the ingenuity displayed by a partner in a junk yard and tourist court, who operates a coal mine producing less than one carload a day, in obtaining a contract for 2,500,000 tons of coal, contingent upon his being able to borrow money to develop the mine.

The New York Congressman charged that Mr. Truman's present plans for the Niagara river development are motivated by political considerations. He said:

... [Mr. Truman] is now making one last desperate effort ... to dupe the people into permitting the Army Engineers or people under their jurisdic-

tion to construct the development for hydroelectric power in the Niagara river when no one in the Corps ... or in any department of the Federal government has ever had one day's experience in the peculiar engineering problems attendant with the development of a power project in the Niagara river ... it is conceded by all that the engineering know-how of the private companies would permit this development far more economically and efficiently and that they could complete it two years sooner than could any government agency. And the area certainly needs the power and needs it badly and immediately.

MILLER added that there is not a government agency in Washington that has the record for integrity and efficiency as has the public service commission of the state of New York. He continued:

... if a private utility develops this power, its books are open daily to the inspection of members of the public service commission of the state of New York, and its rates are set by the public service commission so that there never has been and never could be any exploitation of natural resources by a private utility. The private utility secures, after expenses, only a fair return on investment, which is distributed to the hundreds of thousands of stockholders who, in turn, also pay taxes on their incomes to the Federal government.

Miller concluded with a denial of President Truman's charge that "the forces of reaction" are seeking to take over the Niagara development. On the contrary, he said, private development is favored by the consumers of New York, the employees of the private utilities, and the taxpayers of every state in the Union who want to keep that area "free from the inefficiency, stench, and corruption of the present big government that has succeeded in stretching its tentacles into many other places and fields wherein it never rightfully belonged."

The March of Events



In General

Pipeline Wins Approval

THE Alberta Conservation Board's report on six applications for natural gas export permits early this month recommended that West Coast Transmission Company, Ltd., be permitted to pipe gas from northern Alberta's Peace river region to the Pacific coast.

The board rejected five other applications to tap for export the great gas fields of central and southern Alberta. It said all these will be needed to ensure cheap fuel for the province's large cities and their surrounding territories.

The provincial government is not bound by the board recommendations.

Hitherto the government has frowned on any general export of gas until proved reserves are adequate to take care of Alberta's own needs during the second half of the century.

West Coast Transmission plans to build a gas line from just east of the

Alberta-British Columbia border in the Peace river area. It will cut down through the interior of British Columbia to a point near the British Columbia-Washington boundary. There a spur will shoot gas into Vancouver, the main line continuing into the United States.

Power Consultant Named

ALBERT C. BROWN, assistant to the president of the Hartford Electric Light Company, has been granted a leave of absence to be power consultant for the Defense Electric Power Administration of the United States Department of the Interior.

Mr. Brown's services were requested by the government, and his duties will be in connection with the present emergency problems of expansion of power capacities of the nation's electric utilities. He has had wide experience in the operation of interconnected electric systems.

Arizona

State Law Amended

A BILL given final passage by the state legislature last month and sent to the governor for signature amends the state law governing issuance of municipal revenue bonds to include "common carriers of passengers" under utility concerns that could be purchased by

municipalities with revenue bonds. The law heretofore did not permit municipalities to issue revenue bonds for that purpose.

Although general in application, the new measure was designed to permit the city of Phoenix to purchase Metropolitan Bus Lines.

Florida

Accepts Recommendation

ON recommendation of the state railroad and public utilities commis-

sion, the Florida Power Corporation recently dismissed its appeal of the Pinellas Utility Board rate order and was scheduled to start refunding more than \$1,-

PUBLIC UTILITIES FORTNIGHTLY

000,000 of escrowed funds to customers in Pinellas county. By accepting this recommendation of the commission, the company will be permitted to immediately install the rates heretofore established by the utility board in Pinellas county and to add to these rates the inflationary adjustment of $14\frac{1}{2}$ per cent which the company is now enjoying in

the other territory which it serves.

This latest action of the company ended the jurisdiction of the Pinellas Utility Board. In the future, all rate and financial matters will be subject to the control of the state railroad and public utilities commission, which received its authority from the last session of the state legislature.

Maryland

Seeks Temporary Rate Increase

THE Consolidated Gas Electric Light & Power Company of Baltimore asked the state public service commission recently for authority to put a 10.4 per cent boost in electric and steam rates into effect on a temporary basis pending determination of its case for new permanent rates.

It asked for permission to start charging the temporary rates, identical to permanent rates it is seeking, on meter

readings which begin on May 15th.

"Because of the continuing deterioration in the company's rate of return and its needs for raising additional capital, it cannot await relief until the conclusion of a long, drawn-out, and contested hearing," the company said in a statement issued in explanation of its temporary rate petition.

Sellers of fuel oil and oil heating equipment contend that a boost in electric and steam rates and not in gas rates would be unfair to them, as competitors.

Massachusetts

Extension of Transit System Recommended

A \$3,000,000 extension of the Metropolitan Transit Authority's rapid transit system to Revere was recommended last month by the legislative committee on metropolitan affairs.

The proposal was filed with the state senate as Mayor Hynes of Boston called a meeting of city, state, and MTA officials in a new effort to reapportion the transit system deficit. Hynes declared the 1940 passenger count now in effect does not accurately determine the percentage of Boston residents who use the facilities. A shift to a population-valua-

tion basis was beaten by the state senate recently.

A bill to continue the 12-year-old formula was reported favorably late last month to the senate.

Committee Approves Gas Bill

A BILL proposing a statewide investigation of gas rates was approved recently by the state legislative committee on power and light.

The bill filed by Representative Burke, Democrat, Boston, calls for a special commission which would have power to summon books and other records of gas companies for the inquiry.

Missouri

Neither Utility Nor State Liable

NEITHER a public utility company nor the state is liable for a damage suit

while the utility company is being operated by the state under terms of the Missouri public utility antistrike law, according to an opinion handed down last

THE MARCH OF EVENTS

month by Judge Blair of the Cole County Circuit Court.

The company is not liable in such instances, he ruled, because it is not in possession of its property while the state is immune because it cannot be sued.

Judge Blair dismissed a test case damage suit brought against the Kansas City Public Service Company and Vance Julian, chairman of the State Board of Mediation, when the state seized and operated the firm from April 30th to December 11th under provisions of the 1950 Missouri law which restricts strikes in public utilities. The plaintiff had asked \$15,000 in damages, claiming she was thrown from the door of a bus and suffered injuries.

Judge Blair set forth the following four major points in his ruling: (1) The company was not in possession of the bus involved in the accident, nor was it operating it at the time; (2) the bus operator was not an employee of the company at the time, since the state was operating the company; (3) the bus was in the possession of the state of Missouri and its duly designated authorized agent, Vance Julian; (4) the state is immune from such liability.

Final outcome of the test case, which was expected to be appealed to the state supreme court, will affect all other damage suits against the company that accumulated during the period of state operation.

New Jersey

Gas Bills Approved

FINAL legislative approval was given recently to a bill which places natural gas pipelines under the jurisdiction, supervision, and regulation of the state public utilities commission. The senate concurred in a committee substitute for the bill previously voted by the assembly.

The bill permits the commission, after notice and public hearing, to promulgate reasonable rules and regulations for the safe construction, operation, and maintenance of natural gas pipelines, provided such rules are not inconsistent with

provisions of the Federal Natural Gas Act.

In considering the reasonableness of its rules, the commission shall consider among other factors "the economic necessity and desirability of natural gas service, the effect of such rules on the cost of natural gas service," and various other factors.

The senate also concurred in assembly approval of a bill regulating the sale of liquefied petroleum gas. Regulation is placed under the superintendent of the state division of weights and measures.

New York

Gas Pipeline Bill Signed

GOVERNOR Dewey recently signed into state law a bill giving the state public service commission jurisdiction over interstate natural gas pipelines going through the state so far as their construction affects public safety.

At the same time the governor vetoed five other pipeline bills that the state commission said would constitute an unconstitutional restriction upon interstate commerce. Commission members expressed belief, however, that the meas-

ures, with some modifications, should be reconsidered next year "unless due regard is given (by the companies) to this manifestation of public feeling" against the "arbitrary" actions of the companies.

Bill for Transit Study Signed

GOVERNOR Dewey early this month authorized the creation of a temporary state commission to study the deficit-ridden rapid transit system of metropolitan New York and New Jersey and try to come up with a solution for

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New York's transportation problems.

The governor signed without comment a bill that will permit him to ap-

point five members to the new commission. They will serve without pay but will be reimbursed for expenses.

Ohio

Commission Announces Radio Program

THE state public utilities commission recently announced the start of a series of 15-minute radio programs designed to explain its work and duties to the public. The first program, dealing with rural telephone problems and the answers found so far by the commission, was broadcast on March 28th as a public service feature of the Ohio Farm Bureau Federation.

The low-budget, nonpolitical programs are made available on standard speed tape recordings, or on transcription discs if the occasion arises, and after the first appearance are offered to radio stations throughout the state, to be used as part of their public service operations.

The commission hopes to produce four or five more programs, but will not try to meet any definite deadlines. The programs will be "fitted in" with the activities of the commission so as not to interfere with other work.

Pennsylvania

Natural Gas Rate Increase Sought

THE Manufacturers Light & Heat Company, Pittsburgh, recently asked the state public utilities commission to approve a raise in the price of natural gas served to large volume industrial customers. It was the first time since 1941 that the company had sought such an increase.

In filing the new rate schedule, C. E.

Bennett, president of Manufacturers, pointed out that the higher rates were necessary because "rising costs and inflation have now reached a point where the company is no longer making a fair return on its huge investment."

The proposed rates, according to Mr. Bennett, will bring Manufacturers' rates more in line with the prices other gas utilities in the area have found it necessary to charge for such industrial gas.

Virginia

Utility Seizure Bills Reinforced

A NEW set of laws regulating public utility labor disputes and state seizure of utilities took effect in Virginia this month. Governor Battle signed two emergency acts of the 1952 general assembly—and his signature converted the legislation into effective law immediately.

The pair of separate acts repeals and replaces the former Virginia Public Utility Labor Relations Act, a one-bill package of legislation passed five years ago, in which the state was empowered to seize and operate public utilities shut

down by strikes or by labor disputes.

The recent change from old law to new abolished some of the specific provisions of the former act, but its over-all impact was to reinforce the state's power to take over and operate public utilities whenever the governor decides such intervention is necessary to protect the public health, safety, and welfare.

The two new acts were passed on the governor's recommendation to eliminate any possible doubts about the constitutionality of Virginia law in coping with public utility labor troubles.



Progress of Regulation

REA Telephone Loan and Equity Certificates Approved But Loan Contract Criticized

An application by a telephone co-operative for authority to secure a loan from the Rural Electrification Administration and to issue and sell equity certificates bearing interest at a rate of 3 per cent per annum, representing an indebtedness of the co-operative payable from earnings, was approved by the Georgia commission.

Certain provisions in the loan contract, in the opinion of the commission, appeared to place entirely too much power in the REA Administrator. It was, however, represented to the commission that if a revision were required, harmful delay would result. Therefore, no revision was directed by the commission, but it strongly urged the Rural Electrification Administration to give careful consideration to a revision of its contracts.

One provision required the borrower to submit, when the Administrator shall so require and subject to the Administrator's approval, a contract for the employment of a manager and such other managerial personnel as the Administrator should specify. It was further stipulated that unless the effectiveness of each such contract should be conditioned upon the approval of the Administrator, the borrower should not enter into any contracts for management, accounting, or other like services.

The commission observed that it did not seem necessary for the Administrator to approve contracts for the employment of a manager, managerial personnel, accounting personnel, and like services.

Such provisions might be entirely reasonable if the borrower were in default under the loan, or had not followed the terms of the mortgage, the mortgage note, or loan contract. Otherwise, said the commission, the borrower should have exclusive authority with respect to the selection of its management and personnel.

Another provision stated that extension of service to all applicants in the area was of the essence of the borrower's obligations and the failure or neglect of the borrower to perform such obligations should be deemed to be an event of default under the loan contract and under the mortgage and any supplemental mortgage. The provision that the borrower should furnish adequate telephone service to the widest practicable number of persons in rural areas seemed to cover adequately REA's announced area coverage policy. The latter part of the provision, however, would make possible the default and foreclosure of the mortgage merely if, in the Administrator's opinion, the extension of service by the co-operative was not adequate.

Another section of the loan contract stated that if the construction or operation of the project should not proceed in accordance with the terms of the loan contract, or if, in the opinion of the Administrator, action should be necessary to protect the government's security for the loan, or should be essential to achieve the objectives for which the loan was made, the Administrator might appoint, as the representative of the government,

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a supervisor for the project or other property of the borrower necessary to the construction or operation of the project and should notify the borrower of such appointment and the duration thereof and of the salary of the supervisor. This section, said the commission, would be more reasonable if the words "or if in the opinion of the Administrator, action is necessary to protect the government's security for the loan or is essential to achieve the objectives for

which the loan is made" were deleted. This provision would then read "if the construction or operation of the project or any parts thereof shall not proceed in accordance with the terms hereof, the Administrator may appoint, as a representative of the government, a supervisor . . ." This, said the commission, would be sufficient to protect the lender's interests. *Re Pineland Teleph. Co. op, File No. 19547, Docket No. 296-U, March 19, 1952.*



Store to Keep One Phone Despite Unlawful Use

THE Florida Circuit Court ended a proceeding brought by a drugstore proprietor to prevent his telephone service from being discontinued by finding that the company was justified in removing the phones because of the unlawful activity of the proprietor. The court, however, ordered the company to leave one of the pay station phones in service

to prevent undue public hardship.

In dissolving a temporary restraining order obtained by the subscriber by false statements, the court ordered the subscriber to pay the company \$500 for the attorney's fees incurred by the company in the litigation. *Lojacono v. Southern Bell Teleph. & Teleg. Co. February 18, 1952.*



Allocation of Interstate Plant on Gross Sales Basis Approved

An electric company's allocation of plant between intrastate and interstate operations on the basis of kilowatt hours sold, in an intrastate rate proceeding, was approved by the Montana commission. In a previous case the allocation had been based on ratio of revenues. The commission noted that in the previous case rates were similar on all parts of the system and the method was probably the most accurate. In this instance, the commission pointed out, electric rates in other parts of the system were higher and that allocation based on revenue would not be accurate.

Under the proposed rates the company would realize a return of between 4.49 and 4.99 per cent, depending on

whether steam-heat property was deducted and what percentage ratio was used. The commission held that this rate of return was not unreasonable.

An objection made by a doctor as to commercial rates for X-ray machines was dismissed on the ground that the protest was as to a specific rate and outside of the scope of the hearing. The commission said, however, that the application of such rates to X-ray service was not unreasonable, considering the high volume of demand service and equipment required to furnish such service, even though the total use of electricity was small. *Re Montana-Dakota Utilities Co. Docket No. 3963, Order No. 2300, January 21, 1952.*



Interest Paid to Affiliate Reduced for Rate Making

THE Massachusetts commission disallowed 6 per cent interest on a water company's demand notes payable to

an affiliate and held that 4 per cent was more equitable for rate-making purposes.

An annual charge for depreciation was

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increased because the depreciable property of the company had been considerably increased. The commission said that the depreciation should more closely conform to depreciation taken for Federal

income tax purposes of the water utility.

A return of 5.32 per cent under the proposed rates was held to be reasonable. *Re Wannacomet Water Co. DPU 9603, February 4, 1952.*



Bus Service between Contiguous Municipalities Not within Commission Jurisdiction

A BUS company operating exclusively within the limits of a municipality in South Dakota is not subject to commission jurisdiction. The South Dakota commission was faced with the question whether it should take jurisdiction over a bus company operating between two separate but contiguous municipalities. It was pointed out that a municipality had no jurisdiction to regulate the company. The company, from time to time, ran busses to a fairground beyond either municipality.

The commission held that operations to the fairground outside the city were not operations exclusively within the municipality and, therefore, gave the commission jurisdiction. It was pointed out, however, that the company was not operating, at the time, to the fairgrounds. The commission said that it would be obliged to assume jurisdiction unless

those operations, upon application, could be classified as being of a temporary nature.

The commission, after analyzing the exemption clauses and their construction in several states, decided to follow the more liberal Kentucky and Michigan interpretations. A Kentucky court had authorized a bus company to operate between separate but contiguous municipalities without commission regulation.

In a dissenting opinion, it was pointed out that the municipality could not regulate the bus company and that the legislature intended, through the Motor Carrier Law, to cover all situations and give the commission jurisdiction where a motor carrier for hire did not conduct its operations entirely and exclusively within the confines and limits of a single municipality. *Sioux Falls v. Mills et al. F-2347, February 1, 1952.*



Fifteen-cent Urban Bus Rate Approved

THE New York commission, in investigating rates charged by a transit company in Buffalo and suburban areas, approved the establishment of a one-way cash fare of 15 cents for the city zones. Increased token rates were also suggested. The commission, while observing that the company has introduced a number of worth-while economies with respect to reduced office rents and improved garage facilities for the care and maintenance of its equipment, expressed the hope that progress in reducing expenses would be continued and extended further into the operational field.

In noting the plight of the privately

owned transit company, the commission observed that continued rising costs and declining passenger volume tell an almost universal story of deficits followed by increased fares, succeeded by further deficits. For example, it cited that within a little over a month it had seen abandonment of transit service in one, and severe curtailment of such service in another, city in the state. In recognition of the fact that mass transportation is a necessity, particularly in the larger cities, it was said that if private enterprise could not supply the means, the municipal governments must.

The commission said that since the transit industry is subject to the poten-

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tial competition of everyone who owns a private automobile, there exists no power in its hands by which it alone can insure that capital invested in the transit industry will earn a fair return. If the extravagances and deficits payable out of general taxes, the natural concomitants of municipal transit ownership, are to be avoided, additional aid must come from other sources. In view of this, the commission recommended certain possible solutions.

The transit industry was urged to help itself by effecting every conceivable economy consistent with the rendition of safe and adequate service. Secondly, there should be brought into existence a more complete and genuine understand-

ing by the general public and its duly elected representatives of the nature of the problem, combined with the willingness to forego types of service which cannot be rendered by the industry without sustaining an operating loss.

Finally, the commission said, there should be aroused among those engaged in rendering the service and in dealing with the customers a spirit of enlightened self-interest which would promote greater operating efficiency and improved public relations. With these suggestions as a background, the commission recommended the previously mentioned rate increases. *Re Niagara Frontier Transit System, Inc. Case 14984, January 8, 1952.*



Municipal Plant Must Provide Adequate Water Pipe

A MUNICIPAL water utility was ordered by the Wisconsin commission to render reasonably adequate service. A complaint by two customers alleged that service was inadequate because the water pipe serving their street was small sized. The municipality refused to install a new pipe unless the expense incurred was assumed by the customers as provided under extension rules.

Once water service has been properly obtained from the utility, the commission said, the utility has a legal responsibility to continue that service and to provide facilities of sufficient size to maintain reasonably adequate service. It was further held that if, by connection of additional customers or by normal increase in use, the main facilities become inade-

quate to maintain service, it is the responsibility of the utility to provide at its own expense such facilities as are needed to render service reasonably adequate. The fact that existing facilities were provided by a predecessor company did not alter the responsibility of the operating utility.

In dismissing the municipality's contention that the pipe in question was not a water main and, therefore, not its responsibility because it had always been the practice to install larger pipe, the commission held that it was not the size of a pipe but rather the manner in which it was used which determined its status as a main or a service pipe. *Hanisch et al. v. North Fond du Lac, 2-U-3688, January 30, 1952.*



State Commission's Interstate Regulation Set Aside

A STATE commission order requiring an interstate railroad to extend passenger train service to another municipality within the state was held by the Michigan Supreme Court to be improper because such order was primarily an attempt to regulate interstate commerce, rather than a regulation of local concern.

The court pointed out that the power of Congress to regulate interstate commerce is paramount, exclusive, and broad in its scope. But in the absence of conflicting legislation by Congress, a state may regulate commerce within its borders, although interstate commerce may be affected, as long as the action of the state does not discriminate against or un-

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reasonably burden interstate commerce, and is related to a matter of local concern.

Such orders must safeguard the obvious state interests, and the local interest at stake must outweigh whatever national interest there might be in the prevention of state restrictions. In this instance, it was held, the commission did not pass upon matters of a local concern but, in fact, was regulating interstate commerce.

The court further pointed out that a commission order requiring a railroad to

operate passenger trains at a substantial loss is arbitrary, unreasonable, and confiscatory where the furnishing of service is obviously unnecessary and serves no useful purposes, notwithstanding earnings from freight and other services might absorb the loss.

Because the commission order was arbitrary, unreasonable, and confiscatory and without jurisdiction, the court held, the railroad would be awarded costs on appeal. *Chicago, M. St. P. & R. Co. v. Michigan Pub. Service Commission*, 50 NW2d 884.



Municipal Fixing of Limits for Extraterritorial Service Not to Apply to Present Service

THE Wisconsin commission, for two reasons, denied a petition for rehearing of an order refusing a municipal water utility authority to discontinue service to a customer beyond municipal limits. First, the commission said, the petition was filed twenty-one days after service of the order. A petition for rehearing must be filed within twenty days.

Secondly, the commission held, the petition should be denied on its merits. The petitioners had argued that a recent statute gave a municipal utility authority, by ordinance, to fix the limits of service beyond municipal boundaries. A municipality furnishing water to the public, said the commission, is a public utility and is subject to the same duties and obligations as a nonmunicipally owned utility. In this instance the mu-

nicipality had obligated itself to serve certain customers beyond municipal limits. One of the municipality's duties, it was pointed out, is to render service to all members of the public located in the area in which it has undertaken to or holds itself out to serve, and, in order to discontinue any such service, commission authority is essential.

The statute authorizing the municipality to fix the limits of service beyond municipal limits, the commission held, applies when a municipality decides to render service in such areas. The statute does not mean that a municipality, presently serving beyond municipal limits, can fix extraterritorial limitations so that customers previously served would be excluded and service discontinued. *Schoen et al. v. Green Bay*, 2-U-3626, January 24, 1952.



Federal Jurisdiction over Non-Federal Cause of Action Denied Notwithstanding Joinder with Federal Cause

A RAILROAD shipping coal to a municipality within one state exacted interstate rates because the shipments entered into another state for the purposes of switching. The municipality insisted that such shipments should have been switched by a connecting railroad which, although it was not authorized to operate within the state, had a track within the

state that would have made the shipment entirely intrastate.

It was contended that a Federal question arose because the carriers were subject to the Interstate Commerce Act and the shipments actually traveled in interstate commerce. Upon a determination that the shipment was not interstate in character, the municipality claimed, the

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Federal court should grant reparation on the basis of intrastate rates. A Federal district court held this to be improper.

A Federal court, it was pointed out, may not assume jurisdiction of a separate and distinct non-Federal cause of action because it is joined in the same complaint with a Federal cause of action. A distinction must be made. If there are two distinct grounds in support of a single cause of action, one only of which presents a Federal question, jurisdiction may be retained and the case disposed of upon the non-Federal ground if the Federal question is not established and provided that the Federal question averred

is not wanting in substance. However, where two separate distinct causes of action are alleged, one only of which is Federal in character, jurisdiction may not be imposed on the non-Federal cause of action. The court held that it had no power to authorize and direct the connecting railroads to engage in intrastate commerce where it was not authorized to conduct such operations within the state. The fact that the carrier falls within the Interstate Commerce Act is not sufficient, in and of itself, to give the court jurisdiction of the subject matter of the action. *Kansas City et al. v. Atchison, T. & S. F. R. Co.* 101 F Supp 1.



Earnings-offerings Approach to Return Allowance Not Accepted

THE Maryland commission permitted a telephone company to increase its local coin-box call charge from 5 cents to 10 cents but denied its application for increased rates in all other respects. The commission ruled that the allowed increase, after giving effect to the current 52 per cent Federal income tax rate, would result in increased net revenue of about one-half million dollars, which was sufficient to provide a reasonable return.

The company claimed that, as a result of the international situation and rearmament, costs and prices have risen, wage rates have increased, and much higher taxes are being imposed. In arguing for a higher rate base, the company stated that a valuation of its property, which is not far from the book cost, underestimates its true fair value and does not give proper recognition to current conditions which it predicted would continue for the foreseeable future.

Counsel for the state, in protesting against a reproduction cost valuation, contended that the company's method of bringing a 1948 reproduction cost down to date was erroneous because of an insufficient deduction for retirements.

The commission quoted with approval a determination which it had made in an earlier proceeding in which the same

company had contended that a reproduction cost valuation should be accepted:

Even though it is necessary to receive evidence relating to reproduction cost, the probative value of such evidence may have but slight, if any, effect in a particular case. It is at best only one of the elements to be considered in determining value.

The valuation approved by the commission was based principally on the original cost of telephone property, with allowance being made for plant under construction and property held for future use.

While the commission accepted the company's proposed materials and supplies allowance, no provision was made for working capital. The lag between the time Federal income taxes were collected and when they were payable provided the company with more than enough money to pay its obligations in advance of the date when customers paid for service.

On the question of return allowance the expert witness for the state

... gave great weight to dividends-price ratios—the percentage relationship existing between dividends per share and the market price per share, and to earnings-price ratio—the per-

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centage relationship existing between earnings per share and the market price per share. To the cost of equity capital, as indicated by the dividends-price ratio, he added two additional allowances—a percentage for retention of earnings and an allowance for cost of financing and underpricing or pressure.

The expert for the company adopted an earnings-offerings price approach. The commission felt that the method used by the state expert was more realistic and commented that the company witness, in employing his method, "differs from top utilities analysts mentioned in an article in the PUBLIC UTILITIES FORTNIGHTLY of March 30, 1950, by John F. Childs."

The return allowance which the com-

mission decided was fair was from 5.75 per cent to 6 per cent on the fair value of the company's property. This would be sufficient to assure confidence in the company's financial integrity and also permit it to maintain its credit and attract capital.

Upon determining the revenue which the company would need to obtain this return, the commission refused to permit the company to increase any of its rates other than the coin-box telephone charge.

An increase in this rate from 5 to 10 cents would, in the opinion of the commission, provide sufficient revenues to give the company a reasonable return. *Re Chesapeake & Potomac Teleph. Co. Case No. 5176, Order No. 48888, March 11, 1952.*



Other Important Rulings

THE Massachusetts commission, in denying a telephone company a rate increase which would give it about 73 per cent more exchange revenues than it received in the preceding year, commented that when a rate increase of such magnitude is requested, the company must carry a heavy burden of proof. *Re Grandby Teleph. & Teleg. Co. DPU 9741, January 17, 1952.*

The Kentucky Court of Appeals held that the commission was correct in its refusal to accept past renewal fees and reissue a motor carrier certificate where there had been a failure to renew such certificate for six years, because a statute provided that no operating rights under a certificate should be effective after the first of a year unless extended for a subsequent year by payment of fees prescribed for original application. *Young et al. v. Eldridge et al. 243 SW2d 483.*

The North Carolina Supreme Court upheld a commission order granting a motor carrier authority to serve along a portion of a route of an existing carrier, upon a finding of public convenience and necessity, because the proceeding was in-

stituted before the statute was revised to provide that a motor carrier could not be authorized to serve along the route of an existing carrier unless there was a finding that existing service was inadequate. *State ex rel. Utilities Commission v. City Coach Co. 67 SE2d 629.*

The Montana commission, in determining whether or not certain railway passenger service should be abandoned, held that the question of freight revenues was immaterial. *Re Great Northern R. Co. Docket No. 3967, Order No. 2304, January 24, 1952.*

The Federal district court, in hearing an action to prevent the enforcement of an Interstate Commerce Commission order approving increased suburban rates for an Illinois railroad, observed that the jurisdiction of the Federal court over such a matter is not affected by the fact that the state commission has reached a different decision regarding the rates and that an appeal is pending in the state court from the state commission decision. *Illinois v. United States, 101 F Supp 36.*

A Federal district court held that un-

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due prejudice cases brought under the statute prohibiting common carriers subject to the Interstate Commerce Act from subjecting any particular person, company, firm, corporation, or locality, or any particular description of traffic, to any undue or unreasonable prejudice or disadvantage, are not subject to the statutory provision against short hauling. *Baltimore & O. R. Co. et al. v. United States et al.* 100 F Supp 1002.

The Civil Aeronautics Board authorized two air carriers to suspend temporarily their transatlantic service to Philadelphia because of the fact that the traffic generated had not been enough to make service to this point as an international terminal economical, even though both carriers had offered adequate service. *Re Trans World Airlines, Docket No. 4228 et al.* February 14, 1952.

A United States Court of Appeals held that a manufacturer and shipper of butter could not be enjoined by a Federal district court for violating the Interstate Commerce Act by illegally inducing motor carriers to transport goods in

interstate commerce without authority, because the act specifies that only carriers and brokers may be so enjoined. *Interstate Commerce Commission v. Blue Diamond Products Co.* 192 F2d 43.

The supreme court of Washington held that the failure of a party to file a note of issue on fact and law, in a proceeding to review a commission order, until four months after expiration date, made the granting of a subsequent motion to dismiss the action mandatory and proper. *State ex rel. Buchanan & Co. Inc. v. Washington Pub. Service Commission et al.* 237 P2d 1024.

The Civil Aeronautics Board, in selecting an air carrier for a local air route between San Diego and Phoenix, which necessarily involved the suspension of a certificated carrier's route in the same area, commented that its authority over the selection of carriers was absolute and necessarily included the power to suspend an operating carrier's service for reasons other than misuser or default. *Re Bonanza Air Lines, Docket No. 2019 et al.* January 17, 1952.

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allowance for high construction costs, 97; investors' interest, 97; net investment basis, 97; telephone company, 97; test period, 97.
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Public Utilities Reports (New Series) are published in five bound volumes a year, with the PUR Annual (Index). These Reports contain the cases preprinted in the issues of PUBLIC UTILITIES FORTNIGHTLY, as well as additional cases and digests of cases. The volumes are \$7.50 each; the Annual (Index) \$6.00. *Public Utilities Reports* also will subsequently contain in full or abstract form cases referred to in the foregoing pages of "Progress of Regulation."

ALABAMA PUBLIC SERVICE COMMISSION

Re Southern Bell Telephone & Telegraph Company

Docket No. 12920

January 25, 1952

APPPLICATION for authority to increase intrastate telephone rates; proposed rates disapproved, smaller rate increase prescribed.

Rates, § 2 — Nature of rate making — Legislative function.

1. Rate making is a legislative rather than a judicial function, p. 103.

Rates, § 32 — Duty of Commission.

2. The Commission, in passing upon rates, acts as a legislative body of specialized and limited powers and, although limited by statute, must have before it as the ultimate and paramount objective the interest of the public as a whole which, though not present in the hearing room, is an essential party to the proceeding, p. 103.

Rates, § 120 — Standards of reasonableness.

3. The ultimate standards to be applied in fixing public utility rates are the wholly subjective standards of fairness, reasonableness, and justice to the public as well as to the utility, p. 103.

Return, § 16 — Right to earn.

4. A public utility must be permitted to earn a fair net return on the reasonable value of its property devoted to the public service, p. 103.

Appeal and review, § 80 — Parties.

5. No individual member of the public, nor any municipality as a representative of the public, has any right to appeal from a rate order, whereas if the Commission should exceed its statutory authority, the courts are always open to a utility for redress of any grievance that the Commission may have done to it, p. 105.

Return, § 11 — Net investment basis.

6. A net investment rate base was used in determining the adequacy of a telephone company's intrastate earnings as reflected by its operating statements, p. 106.

Valuation, § 224 — Rate base determination — Construction work in progress.

7. Construction work in progress should be included in a telephone company's rate base where the company, in computing its earnings requirement, eliminates the amount of interest included in telephone plant under construction, p. 108.

Valuation, § 216 — Rate base determination — Land held for future use.

8. Vacant lots held for future use should be excluded from a telephone

ALABAMA PUBLIC SERVICE COMMISSION

company's rate base where the property was acquired in anticipation of possible future needs rather than for imminent use, p. 110.

Valuation, § 299.1 — Working capital allowance — Net accrued taxes as factor.

9. It is proper to offset with net accrued taxes the amount claimed for materials and supplies and cash requirements, where operating expenses are met out of revenues supplied by subscribers, p. 110.

Expenses, § 87 — Payment to parent telephone company — License fees.

10. A payment by a telephone company of one per cent of its local and toll service operating revenues, less uncollectibles, to a parent company under a license contract for research and experimentation services, use of patent rights, advice from specialists trained in various phases of telephone operations, and financial advice and assistance was approved as an operating expense although no attempt was made to pass upon the propriety of the license contract arrangement, p. 111.

Return, § 35 — Extra allowance for retirement loss — Excess over depreciation accruals.

11. No additional return allowance should be made to compensate a company for retirement loss resulting from the fact that replacement cost exceeds the original cost upon which depreciation has been accrued, p. 112.

Return, § 35 — Extra allowance for high construction costs — Inflationary periods.

12. No additional return allowance should be made to compensate a company for the depressing effect of high construction costs, p. 114.

Valuation, § 139 — Interest during construction — Capitalization of interest.

13. The rate used by a telephone company in capitalizing interest during construction should reflect the actual cost to the company of borrowing money, p. 115.

Return, § 6 — Reasonableness — Test period.

14. The Commission, in determining whether or not rates are fair, must consider earnings over such period of time as will reasonably indicate whether or not the average produces a fair result, p. 116.

Return, § 22 — Reasonableness — Investors' interest.

15. The Commission, in fixing rates, must consider the interest of the investor, whose primary concern is with safety of principal and the continuity of the return on his investment, rather than the speculator who hazards his money on the chance of a quick profit, p. 116.

Return, § 27 — Dividend requirements.

16. A public utility company must earn not only its current dividends but also an additional amount sufficient to maintain its surplus at a figure which will assure continuity of dividends in less profitable years, p. 118.

Expenses, § 114 — Income taxes.

17. A telephone company's income taxes should be allowed as an operating charge for rate-making purposes, p. 121.

Return, § 111 — Telephone company.

18. An intrastate telephone company was allowed a return of 6½ per cent on its net intrastate investment, p. 123.

Return, § 25 — Returns of other enterprises.

Statement that a telephone company's rate of return should be equal to

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that generally earned by others in the same general locality, in business undertakings, attended by corresponding risks and uncertainties, p. 120.

APPEARANCES: Robert E. Steiner, Jr., E. W. Smith, and E. B. Crosland, for the petitioner; Si Garrett, Attorney General of Alabama, M. Roland Nachman, Assistant Attorney General, Maurice F. Bishop, Attorney, and Clifford Durr, James Wilson, C.P.A., and Sydney L. O'Guin of the Federal Communications Commission, for the state of Alabama, and the Alabama Public Service Commission; Arthur L. Shaw, for the cities of Tuscumbia and Muscle Shoals; Grady Arnett, for the city of Florence; R. K. Levens, for the city of Tarrant; Richard B. Emerson, City Attorney, and E. C. Lloyd, Mayor, for the city of Anniston; Lee Bains, City Attorney, for the city of Bessemer; J. M. Breckenridge, Assistant City Attorney, for the city of Birmingham; Walter Price, City Attorney, and A. W. McAlister, Mayor, for the city of Huntsville; J. F. Duggar, Hope Hull, for himself as a subscriber.

By the COMMISSION: From the evidence of record in this proceeding, and in light of the considerations set out fully in the opinion attached hereto and made a part hereof, and in accordance with the principles of law laid down by the supreme court of Alabama in *Public Service Commission v. Southern Bell Teleph. & Teleg. Co.* (1949) 253 Ala 1, 84 PUR NS 221, 42 So2d 655, this Commission finds that:

1. The minimum return fixed by the supreme court of Alabama is $6\frac{2}{3}$ per cent per annum on the company's net investment in intrastate properties devoted to the public service in Ala-

bama. The request of the company for a return of 7.25 per cent on its intrastate net investment is excessive, and the $6\frac{2}{3}$ per cent minimum fixed by the supreme court of Alabama is the rate that will be allowed by this Commission.

2. That the additional annual gross revenues sought by the company in the amount of \$4,912,279 is excessive, and additional annual gross revenues in this amount will not be allowed. Likewise, the Commission will make no allowance for the increase in gross revenues in the further amount of \$1,055,093 for alleged retirement losses, nor for the further sum of \$691,000 to offset the depressing effect on earnings of high construction costs to which the company contended it was entitled. Total additional annual gross revenues in the amount of \$6,658,372 would be necessary to meet the above-alleged requirements.

3. The company's adjusted Alabama intrastate net investment, as of October 31, 1951, in the amount of \$70,046,810 represents the reasonable value of the company's Alabama properties used and useful in furnishing intrastate telephone service upon which the company is entitled to earn a fair net return.

4. The schedule of rates and charges now in force, which were prescribed by this Commission in its order of August 15, 1950, produce earnings to the company at the annual rate of 4.30 per cent on the company's Alabama intrastate net investment, which we find to be the going rate of return.

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5. To raise the company's present going rate of return from 4.30 per cent to the minimum level of 6 $\frac{2}{3}$ per cent fixed by the supreme court of Alabama, additional annual gross revenues of \$3,655,921 will be required, of which amount \$1,995,812 represents increased taxes, leaving the company with additional annual net revenues of \$1,660,109.

6. To increase the public and semi-public pay-phone local call rate from 5 cents to 10 cents would necessitate the expenditure of \$138,847 for pay station conversions and the sum of \$32,451 for converting central office equipment, making the total estimated cost of conversion \$171,298. In addition, it would require approximately nine months to complete this conversion. The Commission does not feel that this proposed increase is justified.

7. The changes in schedules of intrastate rates and charges on file with the Commission, designated as Exhibit "A" to this order and made a part hereof as fully and of the same effect as though physically attached hereto, will, in the opinion of the Commission, produce to the company such additional gross revenues of approximately \$3,655,921, as stated above \$1,995,812 of this amount represents increased taxes.

Opinion

On October 31, 1951, the Southern Bell Telephone and Telegraph Company (hereinafter at times referred to as the "company"), filed a petition with the Alabama Public Service Commission (hereinafter at times referred to as the "Commission"), under and pursuant to the provisions of Title 48, § 53, of the Code of Alabama of 1940, proposing a schedule of in-

creased rates and charges for intrastate telephone service furnished by the company within the state of Alabama, which said schedule the company proposed to make effective on and after December 1, 1951. Under the provisions of Title 48, § 54, Code of Alabama of 1940, this Commission, on its own motion, suspended the operation of the proposed new schedule of rates and charges and set the matter for public hearing before the Commission on December 3, 1951. Notice of this hearing was given to the company and to all municipalities and counties affected by the proposed rate increase. Beginning on December 3rd, testimony for the company was presented, following which the hearing was recessed to December 27, 1951, to give the public and Commission representatives an opportunity to study the testimony presented and exhibits introduced by the company, and to prepare cross-examination of the company witnesses. The hearing was resumed December 27th, and was recessed to January 4, 1952. The hearing was resumed on January 4, 1952, at which time testimony was introduced on behalf of the public and Commission representatives, following which the case was closed and the matter was taken under advisement by the Commission for an order.

Under Title 48, § 54, of the Code of Alabama of 1940, the decision and order of this Commission must be entered not later than sixty days after December 1, 1951, otherwise, the proposed increase in rates would become effective.

In addition to the appearances noted above, various municipalities submitted resolutions opposing any increase

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in rates and a number of organizations registered their opposition through resolutions and petitions. Many persons wrote the Commission in opposition to any increase and complaints regarding inadequate and inefficient service also were made by municipalities and individuals, who wrote to oppose the proposed increase.

Description of Southern Bell Telephone and Telegraph Company

The Southern Bell Telephone and Telegraph Company is a New York corporation, providing local exchange telephone service, and both intrastate and interstate toll, or long-distance, telephone service in the nine southeastern states of Alabama, North Carolina, South Carolina, Florida, Georgia, Kentucky, Louisiana, Mississippi, and Tennessee. As of October 31, 1951, the company operated 86 exchanges in Alabama, serving 403,081 company-owned telephones.

The record shows that during recent years there has been a heavy continuing demand for telephone service in Alabama, and the number of telephones owned by the company and in service in Alabama has increased from 187,680 on December 31, 1945, to 403,081 on October 31, 1951, an increase of about 115 per cent. Although the company made 444,616 installations of new service in Alabama during the same period, the company had on hand 28,661 unfilled orders for service and 38,833 requests for higher grades of service on October 31, 1951. From January 1, 1946, to October 31, 1951, the company expended approximately \$76,100,000 for the construction of additional plant and facilities in Alabama, and company officials

testified they plan to continue construction at the rate of approximately \$15,000,000 per year for each of the next several years.

All of the capital common stock of the company is owned by the American Telephone and Telegraph Company (hereinafter at times referred to as "AT&T Company," or "American Company"), the financial and service unit of the Bell System. On October 31, 1951, the total capital structure of the Southern Bell Company was 745,327,563, of which \$180,000,000 was represented by Southern Bell debentures owned by the public. The remainder was represented by Southern Bell equity capital owned by the AT&T Company, and by advances from the AT&T Company.

The AT&T Company also owns substantially all of the capital stock of Western Electric Company, from which the Southern Bell obtains the greater majority of its supplies and equipment, and Western Electric and the AT&T Company each own 50 per cent of the common stock of the Bell Laboratories, the research and development division for telephone and other associated fields. The AT&T Company is one of, if not the largest corporation in the world. Its many facets of interest and operations present problems of tremendous proportion, the solution of which are dependent upon factors just as varied and involved as the problems themselves. The Southern Bell Telephone and Telegraph Company is a party to a "Standard Supply Contract" with Western Electric, and a "Division of Revenues" contract and "License Contract" with the AT&T Company. Under the "Standard Supply Con-

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tract," Western Electric supplies telephone materials to Southern Bell, and under their "Division of Revenues," interstate toll revenues are divided by the Southern Bell and AT&T Company and Southern Bell is obligated to pay one per cent of its gross operating revenues, less uncollectibles, to AT&T under its "License Contract" in return for enumerated services rendered by AT&T to the company. In addition, as noted, AT&T advances funds to Southern Bell from time to time, which loans are later funded by (1) the issuance of debentures to the public, or (2) common stock at par to AT&T by the company.

The Proposed Rate Schedule

The company has requested a total increase of \$4,912,279. Under the company's proposal, a part of the proposed increase would be obtained by increasing the public and semipublic pay phone local call rate from 5 cents to 10 cents. It was developed that the cost to the company of such pay station conversions would be \$138,847 and the estimated cost of converting central office equipment is \$32,451, making the total cost of the conversion \$171,298. Company officials estimated that it would require nine months to complete this conversion and during the interim they proposed to obtain the additional revenue desired from this source by applying a flat percentage surcharge on each monthly exchange bill until such time as the conversion was completed.

The company contended that it was entitled to a further additional increase in gross revenues of \$1,055,093 for alleged retirement loss and an additional \$691,000 as an allowance for the

depressing effect of high construction costs making a total increase in annual gross revenues of \$6,658,372, to which the company contends it is entitled.

Following the end of World War II, the company filed an application with this Commission on October 28, 1947, for approval of a schedule of increased rates and charges. By order dated March 5, 1948, in Docket No. 11272, 75 PUR NS 298, this Commission granted the company an increase in rates of \$360,000. From this order the company appealed, and pursuant to supersedeas issued from the circuit court of Montgomery county and approved by the presiding judge, the company placed into effect an increased schedule of rates calculated to produce additional revenue of \$2,530,000 (which included the \$360,000 allowed by the Commission). The supersedeas permitted the company to place in effect, under bond, the proposed schedules of increased rates which it had filed with the Commission on October 28, 1947. On January 18, 1949, the circuit court of Montgomery county rendered an opinion and decree setting aside the order of the Commission. The Commission then appealed to the supreme court of Alabama and, on November 3, 1949, the supreme court rendered its decision in *Public Service Commission v. Southern Bell Teleph. & Teleg. Co.* 253 Ala 1, 84 PUR NS 221, 42 So2d 655, affirming the decree of the circuit court and ordering, inter alia, that:

"... The record and matters therein assigned for errors, being argued and submitted and duly examined and understood by the court, it is considered, ordered, adjudged, and decreed that the decree of the circuit

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court be so modified as to remand the case to the Alabama Public Service Commission for further proceedings therein, and the principles of law laid down in the opinion of this court shall govern any further proceedings before the Alabama Public Service Commission, *it being the duty of the Public Service Commission to fix a rate for the Southern Bell Telephone and Telegraph Company in accordance with the opinion of this court.* In the meantime, until the said Commission shall take action on rates and charges to be made in the future by the petitioner, *Southern Bell Telephone & Telegraph Company has the right to make the rates and charges as proposed by it without the necessity of filing any supersedeas or other bond;* and all supersedeas bonds heretofore filed in this cause by said company are discharged and all parties thereto freed from any liability thereunder.

"As thus corrected and modified the decree of the circuit court be and the same is hereby affirmed." (*Italics supplied.*)

By virtue of the supersedeas order, the company, as stated, was permitted to increase its gross revenues in Alabama in the amount of \$2,530,000, effective April 27, 1948. As a result of the decision of the supreme court, the rates were further increased effective August 16, 1950, in the amount of \$3,307,509, making a total increase to the company of \$5,837,509.

Prior to these increases, as a result of the aforesaid decision of the supreme court of Alabama, there had been no general increase in the company's local exchange rates and charges in Alabama since 1921, and no general increase in the company's in-

trastate toll rates since 1926. On the contrary, local exchange and toll rates had been reduced several times since those dates.

The rates and charges fixed by the Commission in its order effective August 16, 1950, were based on the company's operating results for the year ending March 31, 1950. The evidence adduced by the company in this cause shows that since March 31, 1950, due to the operation of a number of factors over which the company has no control, the company's earnings on its Alabama intrastate operations have declined. As a result of collective bargaining, wage increases were granted to the company's employees, effective June 1 and 3, 1951, which amounted to \$14,305,000 per year for the company as a whole and increased its Alabama payroll costs by \$1,493,793 per year. Of this latter amount, \$1,007,860, is applicable to the company's annual Alabama intrastate expenses. The United States Congress increased the Federal corporate income tax rate from the 38 per cent level existing on March 31, 1950, to the present 52 per cent level. The presently applicable 52 per cent rate became law on October 20, 1951, and was made effective retroactively to April 1, 1951.

Of the \$4,912,279 increase sought by the company the sum of \$2,416,490 would have to be applied toward the payment of Federal income taxes.

Legislative Standards

[1-4] Rate making is a legislative and not a judicial function. As we understand the rôle of this Commission in these proceedings, it is, therefore, not that of a court or referee passing objectively upon the conflicting

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claims of adversary parties, approaching its task with a high indifference as to which shall prevail, but concerned only that the end result is reached in accordance with applicable principles and procedures. The rôle of the Commission rather is that of a legislative body of specialized and limited powers, and though required at all times to act within the framework and limitations of the statute which created it, it must, nevertheless, have constantly before it as an ultimate and paramount objective, the interest of the public as a whole which, though not present in the hearing room, is an essential party to the proceedings. The Commission must strive to be always conscious of its responsibility to these nonpresent but essential parties because they can have no effective representation except through the Commission.

As noted this Commission is of statutory creation. Its powers and duties are defined by statute, among which is Title 48, § 52 of the Code of Alabama of 1940, which provides as follows:

"The rates and charges for the services rendered and required shall be reasonable and just to both the utility and the public. Every utility shall be entitled to such just and reasonable rates as will enable it at all times to fully perform its duties to the public and will, under honest, efficient, and economical management, earn a fair net return on the reasonable value of its property devoted to the public service. In any determination of the Commission as to what constitutes such a fair return, the Commission shall give due consideration, among other things, to the requirements of the business with respect to the utility under consideration, and the necessity, under

honest, efficient, and economical management of such utility, of enlarging plants, facilities, and equipment of the utility under consideration, in order to provide that portion of the public served thereby with adequate service."

The term "utility" as defined in the Alabama statutes includes telephone companies. General Acts of Alabama of 1951, v. II p. 1637.

Title 48, § 54, Code of Alabama, reads as follows:

To enable it to make such investigation as, in its opinion, the public interest requires, the Commission, in its discretion, for a period not exceeding sixty days may suspend the operation of any new schedule of rates or service regulations filed with the Commission. Unless as a result of its investigation, the Commission otherwise orders before the termination of such period of sixty days, such rate or service regulation shall thereupon become effective. The Commission may make any order in the premises which it is authorized by any of the provisions of this title to make in any investigation or complaint, or on its own motion without complaint. Under this section the Commission may act with respect to rates and service regulations of any utility prior to a valuation of the property of the utility affected."

Title 48, § 57, of the Code of Alabama of 1940, requires the Commission to make an investigation upon the complaint that any rate or service is unfair, unreasonable, unjust, or inadequate.

While the foregoing statutes expressly require that the Commission, in passing upon the reasonableness of rates and charges and of the ultimate fair net return to be allowed the util-

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ity, give consideration to certain factors, such, for example, as the financial needs of the utility if it is to fully perform its duties to the public and be able to enlarge its facilities to serve growing public needs, the ultimate standards to be applied are the wholly subjective standards of fairness, reasonableness, and justice. The rates and charges must be "reasonable" and "just." The utility must be permitted to earn a "fair" net return on the "reasonable" value of the property devoted to the public service. If complaint is made that rates are "unfair," "unreasonable," "unjust," or "inadequate," the Commission is required to make an investigation and take appropriate action to remedy the matter.

These standards, as we have said, in the final analysis, must depend upon the personal judgments and values of the individuals applying them whether those individuals sit as a regulatory agency or a court of law. But, as we have pointed out above, the objective to be kept in mind, under the express mandate of the statutes, is justice and fairness to the public as well as to the utility.

[5] Moreover, in so far as the public is concerned, this Commission is the forum of last resort. If the Commission should exceed the limits of its statutory authority, the courts are always open to a utility for a redress of any grievance that the Commission may have done to it. If, however, the Commission should fail to live up to its clear-cut responsibility to the public, then the public has no further recourse because no individual member of the public, nor any municipality as a representative of the public, has any right to appeal from an order fixing tel-

ephone rates. *Birmingham v. Southern Bell Teleph. & Teleg. Co.* (1937) 234 Ala 526, 21 PUR NS 36, 176 So 301.

The legislative standards and the major problems involved were considered in detail by the supreme court of Alabama, in *Public Service Commission v. Southern Bell Teleph. & Teleg. Co.* (1949) 253 Ala 1, 84 PUR NS 221, 230, 232, 42 So2d 655, where the court recognized and affirmed a number of controlling legal principles as follows:

"(1) The reasonable rate of return depends upon many circumstances. It cannot be developed by a rule of thumb calculation. It must be determined in the exercise of a fair, enlightened, and independent judgment in the light of all the relevant facts.

"(2) The rate of return must be equal to that generally being earned by others in the same general locality in business undertakings attended by corresponding risks and uncertainties.

"(3) The return must be sufficient to assure the investors' confidence in the financial soundness of the utility enterprise and enough to maintain and support its credit so that it will be able to raise the money necessary to improve and expand its service in the discharge of its public duties.

"(4) In determining the reasonableness of rates, it is necessary to consider the effect of the rates imposed in the light of the utility's present situation and in the light of its requirements and opportunities."

Separations

The regulation of the interstate operations of a telephone utility is under the jurisdiction of the Federal Com-

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munications Commission, while the regulation of the Alabama intrastate operations of such a utility is vested in this Commission. Practically all of the company's plant in Alabama is used in both intrastate and interstate service, and, to obtain operating results for intrastate service, it is necessary to eliminate that part of the company's investment, revenues, and expenses that is assignable to interstate in order that the appropriate jurisdiction of the competent governmental authority may be exercised.

The intrastate operating results submitted in this case were those which resulted from the application of the standardized separations procedures which were developed by the joint efforts of committees of the National Association of Railroad and Utilities Commissioners and of the Federal Communications Commission, including the effect of the October, 1951, modifications of those procedures.

These recent modifications of the separations procedures result in assigning additional investment of more than \$1,000,000 and additional expenses of more than \$200,000 to interstate operations in Alabama with contra reductions in the investment and expenses formerly allocable to Alabama intrastate operations. The use of these procedures, as modified, in effect reduces the company's Alabama intrastate earnings requirement.

The Test Period Considered in Determining Operating Results

Operating results for the 12-month period ending July 31, 1951, with adjustments to give full effect to certain changes which had occurred during this period, were introduced by the

company. The two major changes were the increase in the Federal income tax rate to 52 per cent, effective April 1, 1951, and the June, 1951, wage agreement which resulted in an increase in certain salary and wage rates. The company also introduced in evidence a three months' operating statement for the months of August, September, and October, 1951. The company computed the increase in gross revenues sought on the basis of the difference between the rate of return reflected by this period, after adjustment, and 7.25 per cent, the return sought. We do not consider this latter operating statement covering the three months' period ending October 31, 1951, as wholly representative of the company's going level of earnings.

Rather than consider either of these statements as conclusively reflecting the company's rate of earnings, it was decided to give equal weight to both operating statements, a procedure which would give effect to the twelve months' experience statement, and, at the same time, would give recognition to increased costs and expenses as reflected in the October 31, 1951, statement. The earnings for the period ended July 31, 1951, were 4.48 per cent and for the quarter ended October 31, 1951, were 4.13 per cent. Equal weight was given each of these periods by adding the respective rates of return and dividing by 2. The composite result was 4.30 per cent.

Determination of the Rate Base

[6] The company submitted three different types of rate bases for the Commission's consideration: (1) gross investment, (2) net investment, and (3) reproduction cost new less de-

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preciation. These intrastate base amounts as of October 31, 1951, were as follows:

(1) Gross Investment (original cost)	\$87,950,519
(2) Net Investment (original cost less depreciation)	71,493,778
(3) Reproduction Cost New Less Depreciation (estimated current cost less depreciation) ..	87,134,774

It was noted, however, from exhibits submitted by the company that its earning requirements were computed on the basis of net investment. That is also the rate base used by this Commission in determining the ad-

equacy of the company's earnings as reflected by the two operating statements. In Public Service Commission v. Southern Bell Teleph. & Teleg. Co. *supra*, the court approved the use of net investment as the proper rate base. We do not understand that the company has any differences with that opinion.

In requesting an increase in annual gross intrastate revenues of \$4,912,279, the company sought fundamentally to establish its case on the basis of earning requirements on equity capital, using the capital structure of the company at July 31, 1951, as follows:

	Actual	% of Total	Adjusted to 33%-67% Basis
Capital Stock	\$520,000,000	(75.3%)	\$484,598,897 (67%)
Surplus	20,941,192		
Advances from AT&T Company	8,100,000		
Debentures	180,000,000	(24.7%)	238,683,039 (33%)
	<u>\$729,041,192</u>		
Less: Nontelephone capital	5,759,256		
	<u>\$723,281,936</u>		\$723,281,936

After adjusting the actual capital structure to a 33 per cent-67 per cent basis as shown above, the company determined the over-all earnings requirement on invested capital by applying 2.81 per cent, actual cost, to debt capital and 10 per cent to equity capital. From the total of the two amounts, thus computed, the company deducted an amount which represented the interest capitalized on the balance of Telephone Plant under Construction as of July 31, 1951. The earnings requirements was then related to the company's net investment as of July 31, 1951, and a ratio of 7.21 per cent was then obtained. This, briefly, is the method of arriving at a return of 7.25 per cent on net investment.

Net investment, as used by the company in this calculation, was original cost less depreciation of Telephone Plant in Service, and also original cost of Telephone Plant under Construction, Property Held for Future Telephone Use, Materials and Supplies, and Cash Requirements.

Next, the company related the adjusted net earnings for the 3-month period ended October 31, 1951, to the average net investment for this same period, which resulted in a ratio of 4.13 per cent. The difference between 4.13 per cent and 7.25 per cent, the return desired by the company, was 3.12 per cent which represented the alleged deficiency in earnings. This ratio of 3.12 per cent was applied to net in-

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vestment as of October 31, 1951, to arrive at the amount of additional net revenue required of \$2,230,606 and when converted to gross revenue requirements amounted to \$4,912,279.

The net investment as of October 31, 1951, on which the company determined its earning requirements as outlined above is shown in detail as follows:

Telephone Plant in Service	\$85,382,666	
Less: Reserve for Depreciation	16,456,741	\$68,925,925
Telephone Plant under Construction		1,090,169
Property Held for Future Telephone Use		55,544
Material and Supplies		1,152,554
Cash Requirements		269,586
Total Net Investment 10-31-51 ..		\$71,493,778

This Commission does not consider Telephone Plant under Construction. Property Held for Future Telephone Use (beyond 1953), Cash Requirements, and Materials and Supplies as proper components of a rate base. Each of these items, except the first, is disallowed by the Commission and is discussed, in detail, under separate sections of this order.

Telephone Plant under Construction

[7] A study of the orders of the various regulatory Commissions discloses that Commissions have differed widely in their disposition of property under construction, some excluding it, and some including it, in the rate base. One of the questions presented to the supreme court of Alabama in *Public Service Commission v. Southern Bell Teleph. & Teleg. Co. supra*, was whether construction work in progress should have been considered for rate-

making purposes. In that case, this Commission deducted from the rate base the actual expenditures made for telephone plant in the course of construction. The circuit court of Montgomery county held that the amount representing construction work in progress should have been considered and included in the rate base, and the supreme court affirmed that conclusion and ordered this Commission to include this property.

The Uniform System of Accounts prescribed by the Federal Communications Commission for those telephone companies subject to the Communications Act of 1934 (which includes this company) provides the following instructions with respect to property under construction:

"(a) This account shall include the original cost . . . of construction of telephone plant not completed ready for service at the date of the balance sheet. It shall include interest during construction, taxes during construction, and all other elements of cost of such construction work.

"(b) When any telephone plant, the cost of which has been included in this account, is completed ready for service, the cost thereof shall be credited to this account, and charged to the appropriate telephone plant or other accounts."

Company witnesses admitted the practice of capitalizing interest during construction at the annual rate of 5 per cent, but claimed that the company does not receive a double return since in computing its earnings requirement the company eliminates therefrom the amount of interest included in telephone plant under construction.

The ultimate effect of capitalizing interest is to increase the amount which

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is transferred to Telephone Plant in Service when construction is completed. This increases the rate base and the amount of depreciation expense over the service life of the property. Thus, it can be seen that the company would suffer no hardship if Telephone Plant under Construction were omitted from the rate base since it earns a return on the interest capitalized and subsequently recovers the added investment through depreciation charges which are met from subscribers' revenues.

However, the evidence in this case with respect to the treatment of the item of Telephone Plant under Construction is identical with that presented to the Alabama supreme court in the case of Public Service Commission v. Southern Bell Teleph. & Teleg. Co. *supra*, 84 PUR NS at pp. 242, 243, and, again, we are bound by that opinion which declared that:

" . . . the Commission selected the net average investment . . . and deducted therefrom the amount . . . representing actual expenditures already made for telephone plant in the course of construction. The lower court held that the amount representing construction work in progress should have been considered for rate-making purposes. We think this is correct and in accordance with authority. In the case of New York Teleph. Co. v. Prendergast, PUR1930B 33, 50, 36 F2d 54, 65, the court said:

"The rate fixed must be reasonable and just as to the present and also for a reasonable time in the future. Therefore, the fair value of work under construction must be included as well as that presently used. The master's findings as to this item for the state

and city are reasonable. They were properly included in the valuation of the property found to be used and useful in the service rendered and to be rendered."

"See also Pacific Teleph. & Teleg. Co. v. Whitcomb, PUR1926D 815, 12 F2d 279, 288; New York & Q. Gas Co. v. Prendergast, PUR1924E 59, 1 F2d 351; Monroe Gaslight & Fuel Co. v. Michigan Pub. Utilities Commission, PUR1926D 13, 11 F2d 319; Southern Bell Teleph. & Teleg. Co. v. Railroad Commission of South Carolina, PUR1926A 6, 5 F2d 77, 94.

"The reason given for the exclusion of the amount of telephone plant under construction from the rate base was that during the period of construction the company 'has the right to assign an earning rate through the capitalization of interest during construction.' The Commission thus guards against a double return. The record shows that the company does charge interest during the construction period as specifically provided for in the Uniform System of Accounts. However, in computing its earnings requirement the company eliminated therefrom the entire amount of interest during construction. There can be no duplication when the item of interest during construction is eliminated because the interest being capitalized is used to reduce the amount of revenue which would otherwise be required. Such interest, therefore, does not accrue to the company as a return, the company's only return being that allowed on the amount of construction in progress in the rate base. . . ."

In deference to the above direction by the supreme court of Alabama, the Commission includes the item of Tel-

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ephone Plant under Construction in the rate base.

Property Held for Future Telephone Use

[8] The Commission is of the opinion that an adjustment should be made to eliminate from the rate base that part of Property Held for Future Telephone Use in the intrastate apportioned cost of \$24,828 as of October

31, 1951, which represents plant that will not be placed in service until subsequent to December 31, 1953. This account is defined in the Uniform System of Accounts as "This account shall include the original cost . . . of property owned and held for imminent use in telephone service under a definite plan for such use." A detail of the property eliminated is as follows:

Description	Intended Use	Intrastate Apportioned Cost	Date to be Used
Vacant lot (Florence, Ala.)	Central Office Bldg.	\$15,175	1955
Vacant lots (Sheffield, Ala.)	" "	9,653	1955
		<hr/> \$24,828	

Some Commissions have admitted Property Held for Future Telephone Use to the rate base where there is evidence of imminent use under a definite plan and others have excluded it in the absence of such evidence. In *Re New England Teleph. & Teleg. Co.* (1949) 115 Vt 494, 79 PUR NS 508, 519, 66 A2d 135, the court declared that: "Several rules are followed in dealing with the question of property held for future use. . . . The one most generally adopted, and the one which appeals to us, recognizes that business judgment must be employed to anticipate future needs and that this judgment may not be arbitrarily interfered with. The test generally applied by these cases is whether the time for using the property in question is so near that it may properly be held to have the quality of working capital."

The action of the California Commission in including in the rate base Property Held for Future Telephone Use if it is to be transferred to Tel-

ephone Plant in Service within one or two years, and excluding Property Held for Future Telephone Use if it is not to be transferred to Telephone Plant in Service within one or two years, was approved in *Re Pacific Teleph. & Teleg. Co.* (Cal 1948) 75 PUR NS 379.

It appears that the property above listed was not acquired for imminent use but rather in anticipation of possible future needs. It does not seem fair to burden present subscribers with the cost associated with property which will only benefit subscribers at some future time.

Materials and Supplies and Cash Requirements

[9] The company includes in its recommended rate base amounts for Materials and Supplies and Cash Requirements. The amounts requested, based on balances as of October 31, 1951, was \$1,152,554 for Materials and Supplies and \$269,586 for Cash

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Requirements. It is necessary that the company maintain a reasonable inventory of materials and supplies to fulfil its needs for maintenance and construction work. Not all materials and supplies are cleared through this account. Under certain conditions, particularly as regards major jobs, materials are ordered direct for the job and are charged direct to the final accounts and do not clear through Materials and Supplies.

Cash Requirements were said by company witnesses to consist primarily of those funds required to maintain minimum balances in banks without paying bank charges and amounts required by cashiers for making change, etc.

Both of these items were eliminated from the rate base without passing upon the propriety of their inclusion by the company but upon the basis that these amounts are offset by funds provided through net accrued taxes. Materials and Supplies were adjusted to deduct therefrom that portion of Western Electric Company purchases which were unpaid for and which were

included in the balance of \$1,152,554. The amount remaining after the adjustment was then added to the total Cash Requirement and this total was then compared with the net accrued taxes for each month of the 12-month period ended July 31, 1951. The results showed that accrued taxes exceeded the requirements each month by a difference ranging between \$735,914 and \$1,848,990. Net accrued taxes (the excess of accrued taxes over prepaid taxes) represent prior charges to operating expenses but the actual payments for which have not been made. In effect, they are a withholding of funds to provide for future payments of taxes. Since operating expenses are met out of revenue supplied by subscribers, it is believed proper to offset with net accrued taxes the amounts claimed for Materials and Supplies and Cash Requirements. A staff exhibit was introduced which clarifies the explanation set out herein.

The rate base upon which the Commission feels that the earnings should be related is shown below and is based upon balances as of October 31, 1951:

Item	Before Adjustment	Adjustment	After Adjustment
Telephone plant in Service	\$85,382,666		
Less: Reserve for Depreciation	16,456,741		
	\$68,925,925	\$	\$68,925,925
Telephone Plant under Construction	1,090,169		1,090,169
Property Held for Future Telephone Use	55,544	(24,828)	30,716
Material and Supplies	1,152,554	(1,152,554)
Cash Requirements	269,586	(269,586)
Total Net Investment 10-31-51	\$71,493,778	(1,446,968)	\$70,046,810

Operating Revenues and Expenses

[10] Net operating income for the year ended July 31, 1951, was adjusted by the company to reflect for the entire period subscribers' rates which were effective August 16, 1950, in-

crease in the Federal income tax rate to 52 per cent effective April, 1951, the June, 1951, wage agreement, and the 1950 and 1951 depreciation rates changes. These adjustments are considered proper and are necessary to

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reflect a true picture of the company's operating results. This gives effect to changes which have actually occurred and does not involve predictions or speculations.

Depreciation expense charged by the company is based upon depreciation rates prescribed by the Federal Communications Commission and these rates are used by the company as a basis for recording depreciation expense on its corporate records. No adjustment for this expense was considered necessary.

Some years ago, the company entered into a so-called License Contract with the American Telephone and Telegraph Company and under the terms of this contract the latter company agreed to furnish a variety of services and rights such as the benefits derived from research and experimentation, use of patent rights, advice from specialists trained in various phases of telephone operations, and financial advice and assistance. For these benefits the company pays the American Company one per cent of its local and toll service operating revenues, less uncollectibles. The Commission in this order does not attempt to pass upon the propriety of this arrangement, but approves the charge as directed in *Public Service Commission v. Southern Bell Teleph. & Teleg. Co.* (1949) 253 Ala 1, 84 PUR NS 221, 42 So2d 655.

In an exhibit introduced by a witness for the company the expenses incurred and the capital employed by the general department of the American Company in rendering the License Contract services were prorated to Alabama intrastate. The allocation of expenses included a negative amount of \$34,850 for Federal income tax.

An explanation of this item was requested of the company and its response was introduced as a Commission exhibit. It is known that the amount shown results from a filing of a consolidated tax return by the American Company under the provisions of the Federal Income Tax Law contained in the Excess Profits Tax Act of 1950 and which became law early in 1951. Under the procedure before this new provision, the operating companies filed separate returns and the American Company was taxed on dividends received from the operating companies. This tax on dividends was allocated as an expense of the License Contract. The Commission's preliminary opinion of the amount in question is that it is a tax savings resulting from the filing of a consolidated return and should be passed on to the company. This matter will be a subject of further study by the Commission.

Retirement Loss

[11] Witnesses for the company offered considerable testimony relative to an alleged retirement loss which they contend is directly attributable to the existing high level of prices. The loss, it was explained, results from the necessity of replacing plant retired with new plant costing more than the price at which the old plant was retired. Company witnesses urge that there is a deficiency in depreciation accruals resulting from the replacement of plant retired and that the ultimate result is a diminishing of the stockholder's equity. Presumably, it is the claim of the company that the subscribers make good this deficiency.

The company requested that this al-

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leged loss be considered in determining its earning requirement but did not include an allowance for this item in the \$4,912,279 that it seeks in additional revenues. An exhibit introduced by a company witness purported to show that this alleged loss for the year ended July 31, 1951, amounted to \$479,105 for Alabama intrastate retirements. To provide for this loss, however, it would be necessary to increase subscriber rates to bring in additional gross revenues of \$1,055,000. To arrive at the amount of \$479,105, retirements for the year ended July 31, 1951, were priced out at replacement cost based on July 31, 1951, price levels. The difference between the costs at which the plant was actually retired and this replacement cost is the alleged retirement loss. Such a procedure is subject to the same criticisms as would be applicable if rates for telephone service were based on a replacement cost rate base, since the allowance of an alleged retirement loss would have practically the same effect. If depreciation were allowed on replacement cost, there would theoretically be no deficiency in depreciation accruals, and hence no retirement loss. The company is required by the Uniform System of Accounts prescribed by the FCC to record plant on its books at original cost and to accrue depreciation on this same basis.

No provision is made in the Uniform System of Accounts for the recording of this alleged loss as an operating expense and, if it were allowed by this Commission, the additional revenues provided would ultimately show up on the books of the company as additional earnings, finally becoming a part of the Surplus account.

As a part of Surplus, it would be available for dividends to the stockholders, and, if paid out as such, the purpose for which it was claimed—to finance the purchase of higher-cost replacement plant—would be defeated. If retained in Surplus, it would represent capital obtained from subscribers upon which the company would ask a return.

As previously stated, in order for the company to realize the amount of the alleged retirement loss, \$479,105, it would be necessary to obtain \$1,055,000 in gross revenues from the subscribers. This results primarily from the fact that the Bureau of Internal Revenue does not recognize such a cost. Consequently, it could not be deducted for Federal income tax purposes. The subscribers would be required to contribute \$2.20 in order that the company might retain one dollar. This excess contribution of \$1.20 represents \$1.08 for Federal income tax, 3 cents for Alabama State income tax, 2 cents for License Contract Expense which would be paid to the American Telephone and Telegraph Company, 6 cents for gross receipts tax, and one cent which is the estimated bad-debt loss. It is the Commission's opinion that the allowance of such an alleged loss would result in imposing an unjust and inequitable burden upon the subscriber.

Considerable testimony was offered by company witnesses extolling the benefits derived from the License Contract arrangement with American Telephone and Telegraph Company, particularly as regards the research and development work performed by Bell Laboratories, and the advantages derived from the Standard Supply

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Contract entered into with the Western Electric Company, the manufacturing arm of the Bell System. Testimony was even offered to show the estimated savings in dollars which accrued to the company as a result of new improved equipment, new techniques, etc., which resulted from the relationships described above. This subject is discussed here in order to show that even if a retirement loss were recognized, it would be extremely difficult to reduce it to a dollar amount. A considerable amount of plant retired is obsolete, based upon the types of plant that are available and that are currently being installed. Although the replacement plant might cost more in dollars, that does not necessarily mean that a retirement loss has been experienced. The new plant may have a longer service life, require less maintenance, and require less man-hours to operate it. Under such conditions, the old plant and new plant would not be comparable. It is recognized that the Bell System has made great strides in improving its equipment, operating techniques, and the telephonic art in general.

Rates reflecting a provision for the alleged retirement loss would result in subscribers being required to furnish a part of the company's capital requirements and then in turn provide an amount for depreciation and return on such capital that they furnished. Capital required for the construction of plant needed in furnishing service to the public is a responsibility of the utility and not of the subscriber.

In the instance of plant retired being replaced with plant of a higher dollar cost, the effect is an increase in the rate base of an amount equal to the

difference in the cost at which the old plant was retired and the cost of the new plant. The company is allowed a return on this added investment and recovers the excess cost through increased depreciation charges. Under this procedure, the subscribers receiving the benefit of the new plant furnish revenues for the return and added depreciation. This is equitable treatment. By allowing a retirement loss, however, the present subscribers would be required to pay an additional amount for new plant which will benefit future subscribers.

It would be equally equitable for this Commission to require the company to make refunds to subscribers when replacement cost reached a point where it was less than cost of plant retired as it is to require them to provide revenues for such an alleged retirement loss.

For the reasons stated, the Commission does not recognize an allowance for an alleged retirement loss.

Depressing Effect of High Construction Costs

[12] Testimony was offered by a company witness to the effect that \$691,000, of additional gross revenues are required as an allowance for the depressing effect of high construction costs and suggested that it be considered by the Commission in determining the company's earning requirements. As was the case in regard to an alleged retirement loss, this amount was not included in the \$4,912,279, that the company seeks in additional gross revenues.

It is believed that such an allowance would be based on speculations into the future—that is, predicting fu-

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ture economic conditions and other factors. It also involves speculation as regards future levels of construction activity. Perhaps, one of the best gauges for measuring trends in levels of construction is the sales of Western Electric Company to Bell customers. The period 1945-1948 showed a tremendous increase in sales to Bell customers due to the necessity of catching up on construction that was delayed because of the war and the backlog of held orders existing at the end of the war. After sales reached a peak of over \$1,000,000,000, in 1948, they steadily decreased to somewhat less than \$700,000,000 in 1950. This indicates that the peak of construction was reached in 1948 and is now on a decline.

Rates are made for the future but are based on known considerations existing at the time rates are set. It is recognized that the factors that must be considered in setting rates for a regulated utility change from time to time after the rates are set. This may subsequently result in a trend of increased earnings or decreased earnings. If the latter situation develops to an extent that the utility feels it is entitled to rate relief, then it can petition the Commission for a rate increase based on new cost and operating data.

It is a well-known fact that there is a lag in the regulatory process—or an interval of time before rates may be adjusted during which a utility may earn at too high or too low a rate. Over an extended period of time, however, the utility should have low earnings offset to some extent, at least, by lag periods during which earnings are on an increase.

A practice of predicting future conditions as regards economic cycles, construction activity, and the like might lead to such extremes as predicting operating efficiency, improved techniques, new inventions, tax rates, etc. Such speculation could well prove harmful to a regulated utility.

It is realized in determining a proper rate of return and the setting of rates based thereon that a utility's subsequent operating statements will reveal fluctuations from that rate of return. These fluctuations may be favorable or unfavorable to the utility but as long as these fluctuations are not too pronounced there is no cause for immediate rate adjustments. Rate making cannot be absolutely exact. To express it another way, it can hardly be said that a particular rate of return is the absolute answer and no deviations therefrom will be permitted.

The Commission does not consider an adjustment proper for the alleged depressing effect of high construction costs for the reasons indicated above.

Rate Used by Company in Capitalizing Interest

[13] The company follows a procedure, under certain conditions, of charging interest to Telephone Plant under Construction at an annual rate of 5 per cent to compensate it for the period during which no subscribers' revenues are received on such plant. When this plant is completed and transferred to Telephone Plant in Service, it then reflects this additional amount for capitalized interest. The result is that the rate base on which the company is entitled to a return is increased and the depreciation expense

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which must be considered in rate making is increased. The Commission considers this procedure proper but does take exception to the rate at which such interest is capitalized. It should be borne in mind that the rate used should represent the cost to the company of *borrowing* money since, by definition, the company capitalizes *interest*.

It was brought out in testimony of company witnesses that new construction is financed on an interim basis through advances from the American Telephone and Telegraph Company and that such loans bear an interest rate of 2.75 per cent. After these advances have built up to a considerable amount, the company pays off these loans by issuance of common stock at par to the American Company or else uses proceeds from the sale of bonds to the public to liquidate the advances.

It seems well established that the funds tied up in plant during the period of construction are derived from advances by the American Company at an interest rate of 2.75 per cent. It is the opinion of this Commission that the rate of interest applied in capitalizing interest should reflect the actual cost of money used to finance the new construction. It is interesting to note that the composite cost of the company's debt capital is 2.81 per cent. For those reasons, it is believed that a rate in excess of 3 per cent under the present interest rate is excessive and further that the present balance of plant in service is inflated to the extent that it reflects a rate of interest capitalized in excess of the actual cost of money to the company. The Commission made no adjustment to reflect this

element but did give weight to it in reaching its decision.

Once Plant under Construction is transferred to Telephone Plant in Service, the company begins to receive revenues from subscribers for the use of it. Also the rate base on which the company is entitled to a return is increased and depreciation expense, met out of subscribers' revenues, is increased. Consequently, it is not inequitable to require the company to capitalize interest during construction at a rate which actually reflects the cost of money used for construction.

Fair Rate of Return

[14, 15] The earning requirements of the company for its intrastate operations in Alabama cannot be determined by an examination of the Alabama operations in isolation, for these operations of the company (a wholly owned subsidiary of the American Telephone and Telegraph Company) constitute an integral part of the nation-wide Bell Telephone System.

There is no way of measuring the attitude of the investing public toward the capital stock of the Southern Bell Company for this stock is not traded in the general market. Even the debentures of Southern Bell, which are issued to the public, are sold on the basis of the National Bell System's credit standing. As stated by Mr. Duncan, assistant vice president of Southern Bell, the American Telephone and Telegraph Company stock is in reality Bell System stock.

In the case of Public Service Commission v. Southern Bell Teleph. & Telegr. Co. *supra*, the Alabama supreme court held that the company was entitled to a minimum return of 6½

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per cent per annum on its net investment in intrastate properties devoted to the public service in Alabama, and that any less return would amount to confiscation contrary to the prohibitions of the Fourteenth Amendment to the United States Constitution, and §§ 6 and 13 of the Alabama Constitution. The company is now seeking a return of 7.25 per cent on its intrastate net investment which it calculates will result in a return on equity capital of approximately 10 per cent. This, the company contends, is the minimum necessary to produce a fair rate of return.

As we have indicated, the determination of a fair rate of return is not a matter of scientific measurement or exact mathematical calculation. What constitutes a fair return, in the final analysis, can only depend upon personal judgments applied in the light of relevant facts and prevailing circumstances. Moreover, it does not seem to us that such determination can reasonably be made as of any particular moment or brief period of the utility's earnings or financial history. Rate making cannot practically be a day-to-day affair and stability in rates is as desirable an objective as stability in earnings. Although not subject to the degree of fluctuation prevailing generally in the case of unregulated business operations, utility earnings cannot be absolutely constant from month to month, or even from year to year. Therefore, in determining whether or not rates are fair, both to the utility and the public, it seems to us essential to consider earnings over such period of time as will reasonably indicate whether or not the average produces a fair result; for low earnings during

one short period may be more than offset by higher earnings during an earlier or later period. Likewise, seemingly excessive earnings of the moment **may, when averaged out over longer periods, prove to be reasonable or even unduly low.** In its rate-making processes, a regulatory agency should keep in mind the interest of the investor whose primary concern is with safety of principal and the continuity of the return on his investment rather than the speculator who hazards his money on the chance of a quick profit.

The rate increases previously referred to resulted from proceedings originating in October of 1947. We think it appropriate to point out that the company earnings for the year 1947 were at an abnormally low level. For that year, earnings on Southern Bell's equity capital amounted to only 2.25 per cent, the lowest since 1921; the earnings on the equity capital of the Bell System as a whole were only 5.73 per cent, the lowest since 1935. After 1947, earnings took an upward trend and by 1950 those of Southern Bell had increased to 6.83 per cent, the highest point since 1943, and those of the Bell System as a whole to 9.24 per cent, the highest point since 1929, the last year of the "Great Boom."

The 7.25 per cent return on net investment to which the company claims it is now entitled is higher than the return on the Bell's System's total capital for any year since 1929. The 10 per cent claimed on equity capital is higher than any earnings on Southern Bell's equity capital since 1924, or on the equity capital of the Bell System, as a whole, since 1929. The average percentage of earnings on Bell Sys-

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tem's equity capital for the entire 30-year period, 1921-1950, was only 7.74 per cent. The percentage of earnings on Southern Bell's equity capital for the 30-year period, 1920-1950, averaged only 6.67 per cent. There is nothing in the record in these proceedings to convince us that confiscation of the company's property will result unless we approve a rate of return to the Bell System stockholders greater than they have ever earned since the Boom years of the 1920's. Nor can we believe in view of the present financial strength of the company that its properties have on the average been undergoing a gradual process of confiscation for the last thirty-one years.

The current earnings per share on American Telephone and Telegraph Co. stock are the highest since 1929. For the calendar year 1950 they amounted to \$12.58 per share; for the 12-month period ending July 31, 1951, to \$12.70 per share; and for the 12-month period ending October 31, 1951, to \$12.07 per share. The average earnings per share for the preceding 20-year period, 1931-1950, were only \$8.99. The earnings for 1950 were sufficient not only for the payment of the regular \$9 per share dividend, but the transfer of an additional \$3.58 to the Surplus Account.

[16] We recognize that if the utility is to maintain the confidence of the investing public in its stock, it must earn not only its current dividends but an additional amount sufficient to maintain its surplus at a figure which will assure continuity of dividends in less profitable years. However, we do not think that the public should be burdened with rates over and above those

necessary to yield such a reasonable surplus for the end result would be to require the subscribers, in effect, to furnish an undue part of the company's capital, and then, in turn, pay, through rates, a return on the capital which they themselves have provided. Except for the year 1921, when its dividend was only \$8.75 per share, the AT&T Company has an unbroken dividend record of \$9 per share for the past thirty years. During nine of these years, the AT&T failed to earn its regular \$9 dividend. The total deficiency in earnings for the entire nine years during which the full \$9 dividend was not earned, amounted to only \$14 per share. The surplus per share as of the end of the year 1950 was \$16.14, or \$2.14 per share more than the total deficiency in earnings per share during the worst nine years of the company's operations for the past 30-year period.

The company contends that Bell System's current financial and credit situation is unsatisfactory, and that it is in a disadvantageous position, as compared with other large business corporations, in obtaining the financing necessary for its current expansion program. The company attributes this "unsatisfactory" condition to alleged inadequate earnings and also an "unsatisfactory" ratio of debt capital to equity capital. This financial situation, it argues, is impairing the confidence of the investing public in Bell's securities.

Since World War II, the Bell System has successfully financed the greatest expansion in its entire history. In the period from 1921 to 1929, the increase in its total capital—debt and equity capital combined—was \$2,060,-

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089,000. A relatively small increase in capital of \$323,702,000 was made during the years 1930 and 1939, and during the War period 1940-1945, its total capital was increased by only \$338,462,000. Since 1945, the total capital has been increased in the aggregate amount of \$3,758,041,000. Petitioner witnesses have expressed particular concern over the increasing difficulty in obtaining equity capital as distinguished from debt capital. On the basis of the facts, it seems to us that this concern is considerably exaggerated. Moreover, to the extent that the problem exists, it is one which the Bell System shares in common with all large business concerns.

During the period 1947-1951, AT&T Company issued and sold convertible debentures in the aggregate amount of \$1,510,407,200. As of October, 1951, \$983,029,200 of this amount, or 65.08 per cent, had been converted into stock. In addition, during the same period, AT&T Company offered 2,800,000 shares of stock to its employees, all of which has been subscribed, and a further offer of 3,000,000 shares to employees was authorized by the stockholders in November of 1950.

To the extent that a problem of obtaining equity capital does exist, it is, as we have said, a problem in no way peculiar to AT&T Company. According to a company witness, the national distribution in income, in recent years, has, as a result of higher taxes and higher wages, tended to favor lower income groups who are not accustomed to investing their savings in risk capital, but rather in government bonds and like securities of a conservative nature. "Rather than anticipate any

improvement in this condition," said the witness, "it now appears only prudent to recognize that we will have to live indefinitely with a general scarcity of risk capital."

In arriving at its claimed rate of return of 10 per cent on equity capital, the company has based its calculations upon an assumed ratio of 33 per cent debt capital to 67 per cent equity capital. It alleges that this is the ratio which the Bell System should have to provide a sound capital structure and obtain adequate new capital on reasonable terms. It contends that, although electric utilities are successfully marketing their securities on the basis of a debt ratio of 50 per cent the company's ratio should not be more than one-third due to the alleged greater risks of the telephone business. As a matter of fact, the actual debt ratio of the company as of July 31, 1951, was not 33 per cent, but only 24.7 per cent. For the year 1950, the last year for which figures have been submitted, the average debt ratio of the Bell System as a whole was 46.32 per cent. During the 30-year period for which figures have been submitted, the debt ratio of the company has ranged from a low of 20.72 per cent to a high of 44.97 per cent, and that of the Bell System from a low of 25.83 per cent to a high of 50.46 per cent, which was reached in 1948.

As we have stated above, the Bell System, since World War II, has been able to finance the greatest expansion program in its entire history. No evidence is furnished for the record as to the effect of the debt ratio upon financing in past periods. We do not attempt to make any determination of the proper debt ratio of the company

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or the Bell System. The debt ratio existing from time to time does, however, have a very decided bearing upon the earnings on equity capital, both because debt capital can be obtained at a much lower cost than equity capital and also because the interest on debt capital is deductible for income tax purposes. Income taxes are a particularly significant factor in this present period of high income tax rates. It was of considerably less importance during the prewar period when the debt ratios of the company and of the Bell System were on the average much lower than current averages and when income taxes were comparatively low.

One of the principles governing a fair rate of return laid down by the supreme court of Alabama is that the rate of return should be equal to that generally earned by others in the same general locality, in business undertakings, attended by corresponding risks and uncertainties. While recognizing the soundness of the principle, we find it difficult of application in the present situation. The American Telephone and Telegraph Company is one of the largest, if not the largest, corporation in the entire world. It conducts its operation in every state in the Union and, in addition, is engaged in international communications. We know of no other corporation which affords a fair basis of comparison.

At the present time Bell's earnings are undoubtedly lower than those of many large and successful concerns.

For purposes of comparison, the company has submitted tables showing earnings of large United States manufacturing companies over a period of the last twenty-five years, but we do

not think that the comparison is too meaningful, for it is conceded that the risk attending the operation of manufacturing companies is much greater than that attending the operation of the company. Separate and apart from the question of risk, the comparison is not of equals, for the tables are made up of large numbers of companies, varying in numbers from year to year from a low of 1,025 to a high of 1,710. This would seem to indicate the possibility that as companies incur financial difficulties, they lose their status as "leading" companies and are dropped from the study. The result of this averaging out of uneven numbers of companies and different companies is to produce an appearance of stability and high earnings which would not be shown if the same companies had been used throughout the study. It should be noted that even on the basis used the average results for all the companies showed a net loss of .5 per cent in the year 1932, while the Bell System has never operated without a profit during a single year so far as the record discloses. The average of the percentages of return on equity capital for the manufacturing companies during the depression years of 1930-1934 was only 3 per cent, while the average for Bell on its equity capital during the same period of financial distress was 5.24 per cent, or approximately 80 per cent higher than the average for the manufacturing companies.

The comparative figures furnished for electric utilities are likewise a composite, and moreover, they do not go back beyond 1937, so do not reflect the effect upon electric utilities' earnings of the depression period.

The comparison made between the

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return on equity capital of Southern Bell alone and that of large Southern Electric Utilities submitted by the company is limited to the period from 1945 to 1949.

Comparisons are also submitted of the earnings of Southern Bell with the earnings of a selected list of large southern manufacturing companies. Again, we have a composite of a number of companies, such as manufacturers of tobacco, soap, fertilizer, textiles, cement, whiskey, and the like, which could not well be compared with a regulated telephone utility, and which hardly represent a fair cross section of the industries of the South. For example, only three tobacco companies and two whiskey companies account for approximately 50 per cent of the total capital of the 40 companies selected.

Further testimony has been offered by the company showing that the value of Bell stock has not increased as much as the stock of other business concerns according to Dow Jones averages. In answer to this, it seems sufficient to point out that the average price of AT&T stock for the twelve months' period ending October 31, 1951, was \$154.88. The average price of this stock for the entire 20-year period for 1930-1949, inclusive, was \$152.51. This would seem to indicate that while AT&T stock may not have an appeal to the speculator equal to that of manufacturing concerns, it has not declined in the estimation of the investing public.

[17] Of the \$4,912,279, of additional revenue sought by the company, \$2,416,490 would have to be applied toward the payment of Federal income taxes, which would not be payable at

all on the basis of present earnings. It is clear, therefore, that a dominant consideration in the company's application is the increased income taxes which it is required to pay. Income taxes, and particularly, Federal income taxes, are confronting regulatory agencies with problems of mounting seriousness and complexity. First of all, rates are made for the future and the fact that the Congress of the United States adopts a new revenue act each year makes it necessary for regulatory agencies not only to speculate about future earnings, but also about what percentage of those earnings the utility will be allowed to retain free of tax. Secondly, a serious question is presented as to how far the burden of income taxes can continue to be shifted from the shoulders of the utility to those of the subscribers without ultimately resulting in rates which will be so burdensome as to make the cost of service prohibitive to the average user.

In 1947, at the time the company's last petition for a rate increase was filed, the normal Federal income tax rate was 38 per cent. In 1950 it was 42 per cent and in 1951, 50.75 per cent. At the present time the rate is 52 per cent, an increase of nearly 37 per cent in only four years.

An analysis of the comparative balance sheets and earnings statements, contained in the company's annual report to the stockholders for the year 1950, poses the question, in a very striking way, as to whether it would not be appropriate for regulated utilities to seek such relief as they may feel entitled to from legislative bodies which exercise the taxing power rather than from the regulatory Commissions.

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For the year 1949, the company's net income before Federal income taxes was \$34,837,384. For the year 1950, it was \$52,794,099, an increase of 51.44 per cent. During the same period, the sum total of the company's capital stock, funded debt, advances, and surplus increased only 10.1 per cent, but its Federal income taxes increased 74.05 per cent. For 1950 the ratio of net income before Federal income taxes to its equity capital, including advances, was 10.38 per cent. After income taxes this ratio was reduced to 6.25 per cent

Income taxes (unlike ad valorem taxes and the like which are in a definitely ascertainable amount and which must be paid whether business operates at a profit or loss) are exactions imposed on net profits, and vary with the amount of the net profits. Amounts collected from the public in the form of increased rates for the purpose of reimbursing a utility for its income taxes become themselves income and add to the tax. For example, the present Federal income tax takes 52 cents out of every dollar of

net profits which the company earns, after deducting all other taxes, but in order to reimburse itself for this 52 cents, the company must (as pointed out earlier in our discussion of Retirement Loss) collect from the public in the form of increased rates, not 52 cents, but \$1.08. In other words, the telephone user has imposed upon him an additional tax burden of 56 cents which would not have to be paid either by the utility or the subscriber except for the attempt to reimburse the company for the original 52-cent tax.

The following table shows the cumulative effect of income taxes upon rates when the taxes are passed on to the telephone users. For simplicity, the table assumes an original net income of \$6,000,000 per year after all deductions, including taxes other than Federal income taxes. It then shows the effect of the various tax rates, beginning with the 38 per cent rate in effect in 1947 and the present rate of 52 per cent, followed by assumed increases in rates in steps of 10 per cent:

Tax Rate	Net Income to Company	Total Required Income	Additional Burden on User
38%	\$6,000,000	\$9,677,419	\$3,677,419
52%	6,000,000	12,500,000	6,500,000
60%	6,000,000	15,000,000	9,000,000
70%	6,000,000	20,000,000	14,000,000
80%	6,000,000	30,000,000	24,000,000
90%	6,000,000	60,000,000	54,000,000

We believe that the foregoing figures clearly demonstrate the effect of continuing to pass the burden of income taxes on to the users regardless of the amount, for at the present rate of 52 per cent, in order to leave the utility with the assumed net income

of \$6,000,000, it would be necessary to impose on the subscriber an additional income tax burden of \$6,500,000. If we should assume that the tax rate should be increased to 90 per cent, the telephone users would have to pay rates in the additional amount of

RE SOUTHERN BELL TELEPH. & TELEG. CO.

\$54,000,000, in order to keep the company whole on its assumed earnings of only \$6,000,000.

We recognize that since the opinion of the United States Supreme Court in *Galveston Electric Co. v. Galveston*, 258 US 388, 66 L ed 678, PUR 1922D 159, 42 S Ct 351, regulatory agencies have followed the practice therein approved of permitting income taxes to be deducted from gross revenues of the utility in determining the rate of return which it should receive. In the *Galveston Case*, 258 US at p 399, PUR 1922D at p 169, the Supreme Court said that:

" . . . In calculating whether the 5-cent fare will yield a proper return, it is necessary to deduct from gross revenue the expenses and charges; and all taxes which would be payable if a fair return were earned are appropriate deductions. There is no difference in this respect between state and Federal taxes, or between income taxes and others . . ."

The following year, in *Georgia R. & Power Co. v. Railroad Commission*, 262 US 625, 633, 67 L ed 1144, 1148, PUR 1923D 1, 5, 6, 43 S Ct 680, the Supreme Court reaffirmed the rule laid down in the *Galveston Case*, saying: ". . . One objection relates to the Federal corporate income tax (10 per cent) assumed to be \$45,364. The Commission treated the tax as a proper operating charge. The court disal-

lowed it, and thus increased its estimate of probable net income. In this the court erred. *Galveston Electric Co. v. Galveston*, *supra*. . ."

The principle laid down by the United States Supreme Court in the two cases above mentioned was accepted by the supreme court of Alabama in the case of *Public Service Commission v. Southern Bell Teleph. & Teleg. Co.* (1949) 253 Ala 1, 84 PUR NS 221, 42 So2d 655.

The rate of Federal income taxes at the time of the two decisions of the United States Supreme Court was relatively low compared to the rates prevailing today.

Conclusion

[18] For the reasons hereinabove stated we do not feel that the company should be allowed a rate of return in excess of 6 $\frac{2}{3}$ per cent on its net intrastate investment in Alabama, which is the minimum amount which can be allowed under the decision of the Alabama supreme court in *Public Service Commission v. Southern Bell Teleph. & Teleg. Co. supra*.

The following table reflects the adjustments in the rate base which we find should be made and the additional revenues which the company should be permitted to earn on the basis of the 6 $\frac{2}{3}$ per cent rate of return approved by the Alabama supreme court in the above-mentioned case:

ALABAMA PUBLIC SERVICE COMMISSION

		Before Adjustments	Adjustments	After Adjustments
Telephone Plant in Service	\$85,382,666			
Less: Reserve for Depreciation	16,456,741	\$68,925,925	\$	\$68,925,925
Telephone Plant under Construction		1,090,169		1,090,169
Property Held for Future Telephone Use		55,544	(24,828)	30,716
Material and Supplies		1,152,554	(1,152,554)	
Cash requirements		269,586	(269,586)	
		\$71,493,778	(1,446,968)	\$70,046,810
Return earned for year ended 7-31-51, after adjustments ..				4.48%
Return earned for quarter ended 10-31-51, after adjustments ..				4.13%
Unweighted average for the two periods $(4.48\% \div 4.13\% = 8.61\% \div 2)$				4.30%
Additional earnings required based on 6.67% return $(6.67\% - 4.30\%)$				2.37%
Additional net earnings required $(2.37\% \times \$70,046,810)$				\$1,660,109
Additional gross revenue required $(\$1,660,109 \div .4540878)$				\$3,655,921

As previously noted, Cash Requirements, Materials and Supplies, and Property Held for Future Telephone Use (beyond 1953) were eliminated by this Commission from the rate base before computing the company's earning requirements. No allowance is made for the company's alleged retire-

ment loss of \$1,055,000 and no additional gross revenues are permitted, as such, for the alleged depressing effect of high construction costs which the company witnesses claimed represented an annual loss of approximately \$691,000 in gross revenues.

FLORIDA RAILROAD AND PUBLIC UTILITIES COMMISSION

Re Florida Power Corporation

Docket No. 3391-EU, Order No. 1757
January 31, 1952

APPPLICATION of electric company for adjustment in rates and charges; dismissed.

Rates, § 204 — Unit for rate making — Electric system — Local area.

1. The Commission would not be justified in authorizing any change in electric rates presently in effect in one county, unless at the same time appropriate adjustments are made in the remaining rates of the utility, where there is no evidence which would justify it in treating the county as a separate unit for rate-making purposes and no separation has been made to show operating results in the county as distinguished from the remainder of the company's operations in the state, p. 126.

RE FLORIDA POWER CORP.

Rates, § 44.2 — Exercise of Commission authority — Pending litigation.

2. The state Commission should refrain from exercising any authority with reference to electric rates in one county, and should await the final decision of the supreme court with reference to present rates in that county fixed by a county board, where legislation extends state Commission jurisdiction to such county but continues the jurisdiction of the county board over rates while litigation is still pending, with the result that there is considerable doubt about the jurisdiction of the Commission to authorize any rate change pending the completion of rate litigation relating to the rate order of the county board, p. 126.

Rates, § 204 — Electric system — Evidence as to system operations.

3. The Commission cannot grant an adjustment in an electric utility's system rates, so as to give it a fair return on its entire investment within the state, when testimony and exhibits deal exclusively with system operations, while the Commission has taken the position that it cannot, because of pending litigation relating to rates for one county fixed by a county board, authorize any change in the rates in that county, if there is no evidence before the Commission upon which it could authorize any change in the rates outside that county, p. 127.

By the COMMISSION: On September 4, 1951, Florida Power Corporation, a public utility under the terms of Chap 26545, Laws of Florida, Acts of 1951, filed its petition with this Commission seeking authority to increase its rates and charges in Pinellas county, Florida, to the same level maintained by the utility throughout the remainder of its Florida operations, including the application of the same billing adjustment as the company applies in the other counties served by it.

A public hearing was held by the Commission in St. Petersburg, Florida, beginning on November 28, 1951, during which hearing the utility presented testimony and offered documentary exhibits showing, among other things, its statewide investments, revenues, and expenses. No testimony was offered showing the cost of furnishing electric power to the utility's customers in Pinellas county, nor was there any attempt by the utility to make any apportionment of its invest-

ment and revenues to its Pinellas county operation as distinguished from its Florida operations as a whole.

Applicant's exhibits, aforesaid, were received for identification only and at the close of the hearing, counsel for the Commission questioned the admissibility of said exhibits because they related to the utility's entire Florida operations and were not separated so as to show investment, revenues, and expenses of the utility's Pinellas county operations where it was seeking to have its rates and charges increased.

Counsel for the utility having withdrawn their request to be heard in oral argument on the question of the admissibility of said exhibits and the Commission having carefully considered the question, the Commission entered its formal Order No. 1741, on December 7, 1951, in which it held that said exhibits were not admissible in evidence in support of the utility's application for an increase in its Pinellas county rates and charges. The Commission

FLORIDA RAILROAD AND PUBLIC UTILITIES COMMISSION

further held that inasmuch as no relevant and material evidence had been introduced in support of adjustment in the Pinellas county rates and charges, the application, aforesaid, should be dismissed unless the utility within ten days from the date of said order amended its application so as to seek appropriate adjustment of its system rates and charges.

Thereafter on December 8, 1951, the utility filed with the Commission an amendment to its petition which amendment consisted of an additional and alternative prayer "that the Commission grant such adjustment in rates as will enable petitioner to earn a fair rate of return upon its entire rate base."

A further public hearing was held by the Commission in St. Petersburg commencing on January 7, 1952, on the petition as amended. At this hearing the utility re-offered in evidence all the exhibits submitted in the previous hearing and requested that the testimony received at the former hearing be considered as a part of the record in connection with the amended petition. The exhibits were received in evidence and together with the former testimony are considered as a part of the record on the amended petition.

Several motions were presented during the hearing or shortly after adjournment seeking to dismiss these proceedings upon one ground or another. However, because of the conclusions reached by the Commission it is unnecessary to discuss either the grounds or merits of such motions.

As we have pointed out the petition as amended seeks either to increase the rates in Pinellas county

to the same level as the rates in effect in the other counties served by the utility, or to adjust the system rates so as to give the utility a fair return on its entire investment in the state of Florida.

[1,2] We will first consider the situation with reference to the rates in Pinellas county and the jurisdiction and power of this Commission to effect any change in those rates.

To begin with, the evidence in this proceeding cannot be made to support any adjustment in the Pinellas county rates to the exclusion of those rates of the utility which are applied elsewhere in the area served by it. There is no evidence before this Commission which would justify it in treating Pinellas county as a separate unit for rate-making purposes. No separation has been made to show operating results in Pinellas county as distinguished from the remainder of the utility's Florida operations. For that reason alone we would not be justified in authorizing any change in the rates which are presently in effect in Pinellas county unless at the same time appropriate adjustments were made in the remaining rates of the utility. However, there is a further and even greater impediment to any action by this Commission at this time with reference to the Pinellas county rates. In our opinion there is considerable question concerning our jurisdiction under prevailing statutes to authorize or permit any change in the Pinellas county rates until the litigation presently pending before the supreme court of Florida with reference to those rates has finally been terminated.

Chapter 26545, Laws of Florida 1951, gives this Commission jurisdic-

RE FLORIDA POWER CORP.

tion over the rates and charges of such public utilities as the petitioner herein. However, § 4 of said law specifically provides that this Commission shall not have jurisdiction over the rates fixed by the Pinellas Utility Board which rates have been attacked by the utility in the courts until after such litigation has been finally adjudicated. Also, said section specifically continues the jurisdiction of the Pinellas Utility Board over said rates while said litigation is still pending. Section 6 of said law specifically recognizes the rates fixed by the Pinellas Utility Board and the pending litigation with reference thereto and provides that said rates shall be the lawful rates for said utility in Pinellas county and shall continue in effect until final determination of such litigation or until changed by an order of this Commission.

Under these provisions of the statute it might be reasonably contended that we would have jurisdiction to change the rates to be applied in Pinellas county prospectively; that is, to be effective from and after the date of Commission's order authorizing such change. Under such a conclusion the rates which were fixed by the Pinellas Utility Board, which were affirmed by the circuit court, and which are presently the subject of litigation in the supreme court, would no longer be valid except as the basis for determining the amount of refunds, if any, that might be due the utility's customers in Pinellas county in the event the supreme court upholds the order of the Pinellas Utility Board and the final decree of the circuit court.

The same legislature which enacted Chap 26545 also enacted Chap 27819,

a special act relating to the Pinellas Utility Board. The provisions of this special act must be read in conjunction with Chap 26545 and it provides that the rates fixed by the Pinellas Utility Board to be charged by Florida Power Corporation for furnishing electric energy to its consumers in Pinellas county shall continue in full force and effect until decreed to be null and void by the court in the litigation presently pending with reference thereto, or until this Commission shall supersede said rates by entering an order prescribing new rates to be charged by said utility for the sale of electric energy in Pinellas county.

In the light of these various statutory provisions which cast considerable doubt upon the jurisdiction of this Commission to authorize any change in the Pinellas county rates at the present time we feel that we ought to refrain at this time from exercising any authority with reference to the Pinellas county rates and await the final decision of the supreme court with reference to the present Pinellas county rates which were fixed by the Pinellas Utility Board.

[3] We come now to a consideration of the alternative prayer of the amended petition which seeks an adjustment in the utility's system rates so as to give it a fair return on its entire investment within the state of Florida.

We cannot grant affirmative relief under this prayer of the amended petition without considering the rates in Pinellas county because the testimony and exhibits deal exclusively with system operations. Having taken the position that we cannot at this time authorize any change in the Pinellas

FLORIDA RAILROAD AND PUBLIC UTILITIES COMMISSION

county rates we are immediately confronted with the proposition that there is no evidence before the Commission in this proceeding upon which it could authorize any change in the rates outside Pinellas county. Before the rates outside Pinellas county could be changed, it would be necessary to consider the operations of the utility with Pinellas county deleted therefrom.

It is, therefore, our conclusion that we are not presently justified in exercising or attempting to exercise a questionable jurisdiction over the rates now in effect in Pinellas county and that the amended petition as it relates to said rates should be dismissed.

It is further our conclusion that there is no evidence in this record upon

which the Commission could base an order directing a change in the rates outside Pinellas county and that the amended petition with reference to such rates ought to be denied.

Now, therefore, in consideration thereof it is *ordered, adjudged, and decreed* by the Florida Railroad and Public Utilities Commission that the amended petition herein in so far as it relates to the rates and charges of Florida Power Company now in effect in Pinellas county, Florida, be and the same is hereby dismissed.

It is *further ordered* that the amended petition herein in so far as it relates to rates and charges of Florida Power Company now in effect within the state of Florida beyond the territorial limits of the county of Pinellas be and the same is hereby denied.



Industrial Progress

A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.



N. Y. Electric & Gas Plans 3-Year, \$76,000,000 Program

NEW YORK STATE ELECTRIC & GAS CORP. has planned a construction program for the three years through 1954 estimated to require an expenditure of \$76,000,000, according to the annual report to stockholders. Work scheduled for this year has been budgeted at \$25,000,000.

Onan Auxiliary Power Described

"AUXILIARY ELECTRIC POWER FOR PUBLIC UTILITIES," a new folder describes the types and sizes of Onan electric plants suitable for public utility needs. The literature (Form A-292) is issued by D. W. Onan & Sons, Inc., Minneapolis, Minnesota.

A spread of utilities applications is shown, including Onan units being used for standby purposes protecting FM radio transmitters, microwave central transmitters, and relay stations. Other units power portable electric tools used in powerline construction and maintenance and repair work.

Full descriptive information and specifications are given, for plants from the 400- to 5,000-watt size in both AC and DC models. Brief descriptions of housed standby plants and automatic controls are also given.

The folder is available upon request.

Union Electric Co. Plans \$40,000,000 Expansion

UNION ELECTRIC COMPANY OF MISSOURI will spend about \$40,000,000 during 1952 on its expansion program, according to J. W. McAfee, president.

A large portion of the expenditure will go toward the company's new Meramec plant now under construction in St. Louis county. The plant's first section housing a turbo-generator with a capacity of 125,000 kilowatts will be completed late this year.

A-C Releases Large Vertical Induction Motors Bulletin

CONSTRUCTION features and types of Allis-Chalmers large vertical induction motors widely used for pumps and other vertical drives are described in a new bulletin released by the company.

The bulletin explains that except for bear-

ing arrangement, the mechanical construction of vertical solid shaft induction motors is basically the same as that of horizontal units. The vertical motors are customarily of the open, self-ventilated type. However, they can be provided with the same protective features and enclosures as horizontal machines of corresponding ratings and temperature rise.

The bulletin covers motor ratings in 40 C, 60 cycle from 60 hp, 200 rpm to 800 hp and larger at 1800 rpm.

Copies of the bulletin "Large Vertical Induction Motors," 05B7629, are available upon request from Allis-Chalmers Manufacturing Co., 965 S. 70th street, Milwaukee, Wisconsin.

Low Priced, High Speed Copying Machine Engineered by Bruning

PRODUCTION of a new low priced, high speed Copyflex machine, the Model 30, for making copies in business and industry is announced by the Charles Bruning Company, Teterboro, New Jersey.

"The Model 30 Copyflex machine offers an unrivaled combination of low price, high speed and premium prints," Mr. Allan Halstead, vice president in charge of sales, stated in announcing the new whiteprinter. "Twenty years of continuing research and experimentation are back of the many improvements in the '30,' which offers features ordinarily found only in larger, higher priced machines."

The Copyflex Model 30 was engineered especially to provide a machine that would be ideal for engineers, draftsmen, and business with moderate print requirements and a low budget for equipment outlays. It will speed production of engineering drawings, tracings and other large sized technical originals, while accounting departments and business offices will find it economical for copying large sized records, balance sheets, charts, and cumulative statistical statements and reports kept by the day, week or month for production, inventory, sales and cost control.

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(Continued on page 30)

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The Model 30 requires no installation, just a connection to a 230 volt, 60 cycle alternating current electric power line. Fifty cycle machines are also available. It does not need any inks, negatives, masters, special lighting, dark rooms, plumbing, or exhausts to carry off fumes.

\$47,700,000 Program Planned by West Penn Electric

CONSTRUCTION program of the West Penn Electric Company for 1952 calls for total expenditures of \$47,700,000, the largest in the

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history of the system and comparing with \$30,700,000 in 1951.

Budget for this year provides for the completion of the first two units of the new Albright, West Virginia station, each of which is expected to have a capability of 75,000 kilowatts and, in part, for the installation of an additional unit at both the Albright and Springdale, Pennsylvania stations, each of 135,000 kw and to be completed in 1953 and 1954.

Bulletin Describes Coatings For Plant Maintenance

A 4-PAGE bulletin describing a dozen different special coatings for plant maintenance use has been issued by United Laboratories, Inc. of Cleveland, Ohio. This new literature describes the use of various industrial products for solving such problems as skidproofing, rust prevention, painting over damp areas, weatherproofing and decoration of exterior masonry, interior waterproofing, painting over hot surfaces, protection against acids, chemical fumes and other special maintenance work.

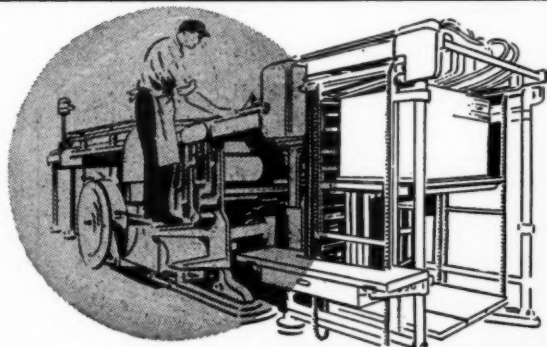
This new bulletin is available without charge upon request to the company.

Dynapakt Concrete Floors

A NEW, illustrated, 20-page bulletin entitled *Traffic Concrete—A Study In Specialization* has been published by Flash-Stone Co. (Continued on page 32)

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Opportunities for economic hydro-electric development are illustrated in this modern, unattended outdoor station of the California-Oregon Power Company. Simplified design, using package-type equipment, cut construction costs. Station is rated 21,176-kva, 6900-volt generator, transmitting at 132,000 volts.

Automatic stations spark new interest in development of marginal hydro-electric sites

With low operating costs and simplified modern construction, small hydro-electric stations can be profitable

At a time when growing power demands tend to put the spotlight on larger and larger generating stations, electric utilities are showing marked interest in small unattended hydro-electric developments.

The reasons may be found in the increased opportunities for economical construction and operation offered through modern, factory-assembled equipment and proved methods of automatic control.

Engineered by General Electric, compact, package-type electrical equipment for hydro-electric stations is readily adaptable to remote control automatic or semi-automatic operation. Outdoor installation means simplified design and reduced expense.

Modern engineering advances, typified in these dependable, factory-assembled equipments, will speed development of water power to the maximum possible economic limits. General Electric Company, Schenectady 5, N. Y.

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One of several package-type electrical equipments for hydro-electric stations, this model is being inspected by J. B. McClure, Manager, G-E Power Generation Div. Co-ordinated equipment design simplifies installation.

GENERAL  ELECTRIC

pany, Inc. The advantages of Dynapakt concrete floors are fully explained in terms of materials used and especially developed methods of installation.

A step-by-step comparison of Dynapakt low-water ratio methods, as opposed to wet mixes is included.

Copies of the bulletin may be obtained from 3723 Pulaski avenue, Philadelphia 40, Pennsylvania.

Weight Reduction in Distribution Transformers Announced

THE fourth weight reduction in General Electric distribution transformers since 1937, brought about by a new design of the pole-type units, has been announced by the company's Distribution Transformer Department in Pittsfield.

The new design, which ranges from 5,000 volts to lower voltages, reduces over-all weight approximately 10 per cent and saves critical materials. The weight reduction will make installation of pole type transformers easier, saving installation time and expense.

Improvements in core steel and processing methods have been incorporated into the design. A reduction in the use of copper has made it possible to build seven transformers with the same amount of the metal formerly required for six.

In addition to its stronger construction, the new transformer offers lower impedances and improved regulation. Clamping structures and

coil supports have been simplified, materially increasing short-circuit strength.

The new units are available in ratings of 50 kva and less, other ratings will be added as soon as practicable.

Gould Announces Stationary Battery Maintenance Chart

GOULD-NATIONAL BATTERIES, INC., offers a two-color 17x32-inch check-chart designed to improve the maintenance of stationary batteries. The check-chart tabulates the procedures to follow in the basic maintenance operations and shows how often each should be done.

The chart, a new addition to the Plus-Performance Plan for conserving and increasing battery power, standardizes battery care, makes the battery man's job easier, helps train new maintenance men, and assures continuous battery care.

For copies of the check-chart write Gould-National Batteries, Inc., Trenton 7, New Jersey.

Ohio Associated Telephone to Spend \$4,125,000 on Plant

OHIO ASSOCIATED TELEPHONE COMPANY of Marion, Ohio, plans addition to plant and facilities in 1952 costing \$4,125,000.

C. E. Williams, president, said this year's program, including improvements, will bring to \$10,951,194 the amount spent during a three year construction program.

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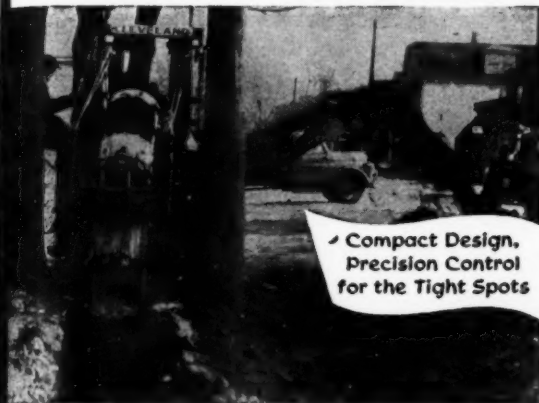
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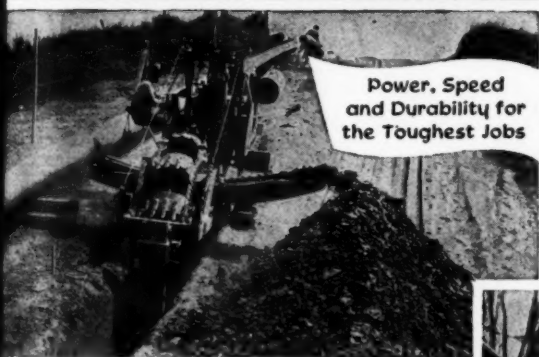
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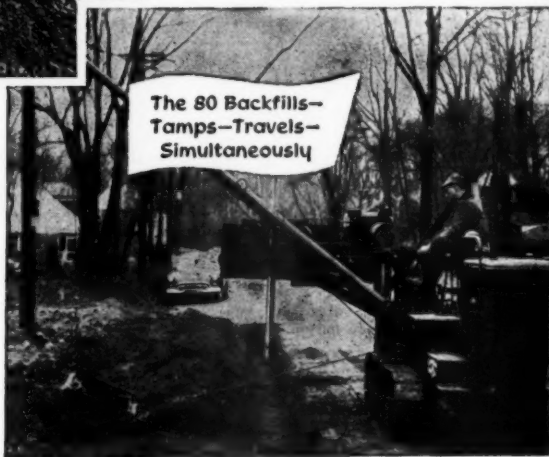
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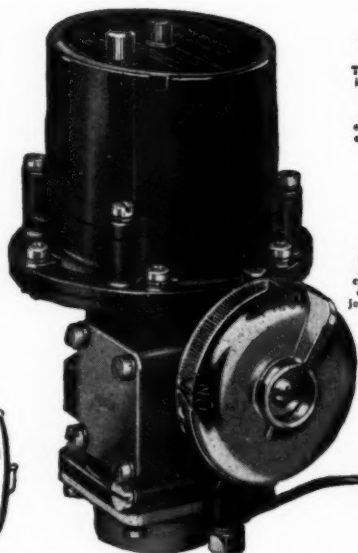
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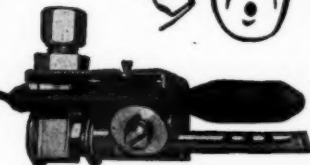
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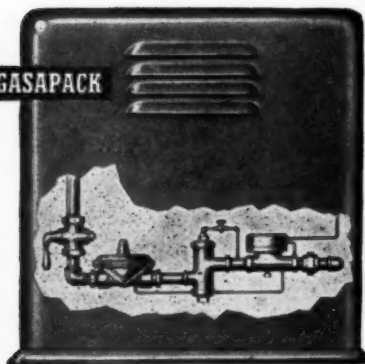
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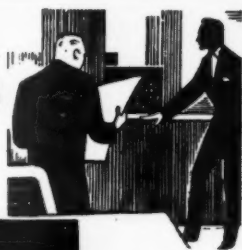
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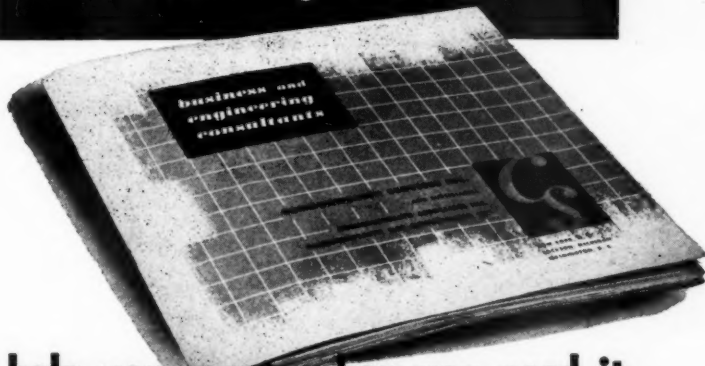
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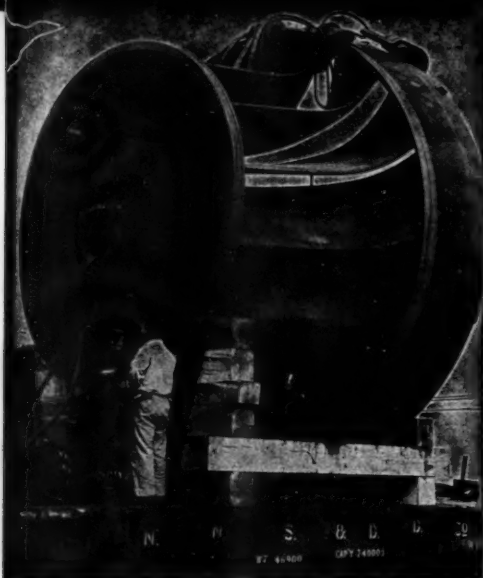
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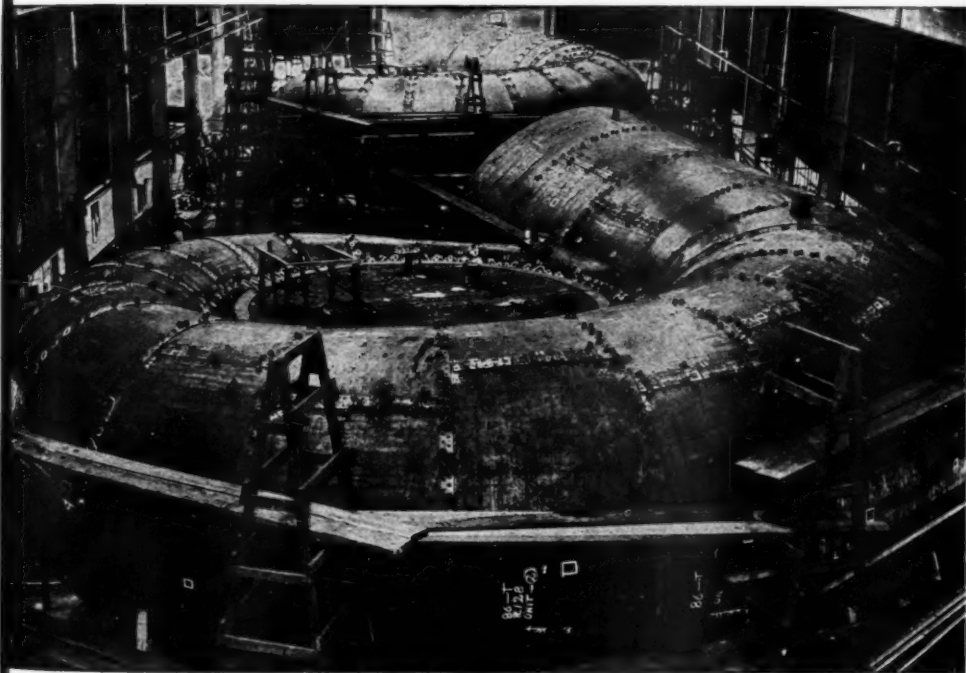
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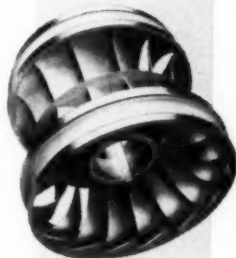
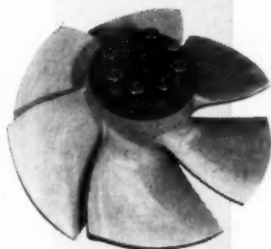
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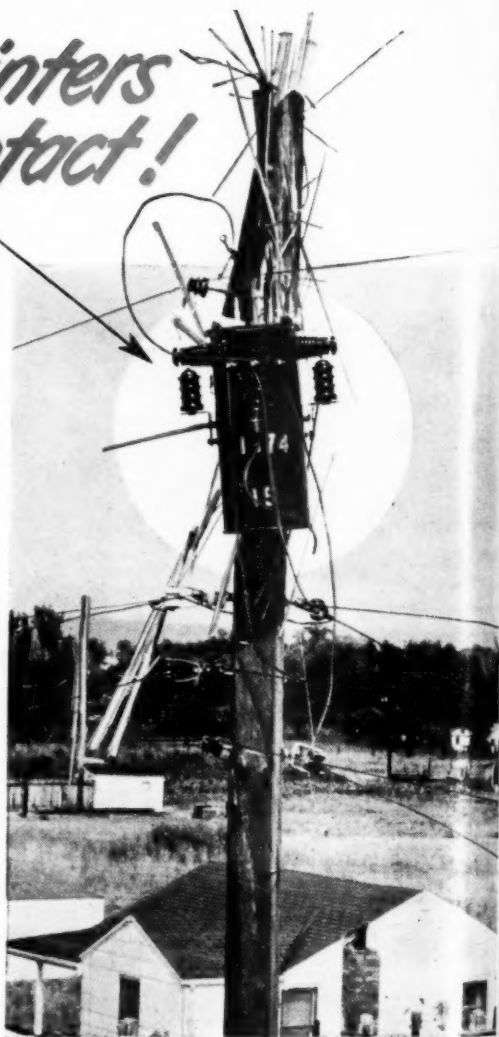
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